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Politics this week

Aug 12th 2004
From The Economist print edition

Fight to the finish in Najaf

Reuters

Heavy fighting continued in the Iraqi city of **Najaf**, as American and Iraqi-government forces tried to crush a renewed revolt led by Muqtada al-Sadr, a junior Shia cleric who leads a militia known as the Mahdi Army. He had ignored calls by Iyad Allawi, Iraq's prime minister, to leave the holy city, vowing instead to fight to the death.

See article

An Iraqi judge issued arrest warrants for **Ahmed Chalabi**, a former presidential hopeful, on counterfeiting charges, and for his nephew, Salem, who is accused of complicity in a murder. Both denied the charges, which they claimed were politically motivated.

Libya continued its quest for respectability. It agreed to pay $35m to compensate some of the victims of the bombing in 1986 of a nightclub in Berlin. Three former Libyan embassy employees had been convicted of carrying out the bombing.

The **Palestinian** al-Aqsa Martyrs Brigade, affiliated to Yasser Arafat, bombed Israeli soldiers at a checkpoint outside Jerusalem. They killed two Palestinians instead.

Iran tested a new and improved version of a ballistic missile with a long-enough range to hit any part of Israel.

The UN's envoy to **Sudan** said that the government there was trying to restore security to the western region of Darfur, which it must do to avoid sanctions. Human Rights Watch, a lobby group, said that on the contrary, the government was continuing to sponsor attacks on civilians.

High intelligence

George Bush nominated **Porter Goss** to be the next head of the CIA. Mr Goss, who is currently chairman of the House Intelligence Committee, is likely to face a tough confirmation hearing from Democrats in the Senate.

See article

Pete Coors won the Republican primary election for an open Senate seat in **Colorado**. He will face the state's Democrat attorney-general, Ken Salazar, in November's general election.

See article

Alan Keyes, a black conservative Republican, entered the Senate race in **Illinois** and faces Barack Obama in November. Mr Keyes ran for president in 2000 after coming third in Illinois's Republican primary.

See article

On the campaign trail, **John Kerry** said that he would still have voted to authorise the Iraq war even if

he had known that no weapons of mass destruction would be found.

Rallying the faithful

AFP

Venezuela's president, Hugo Chávez, who faces a recall referendum on August 15th that could see him forced to step down, held a huge end-of-campaign rally. Polls suggest the vote could go either way.

See article

Brazil's centre-left government sent a controversial bill to Congress to regulate journalists. Critics accused it of Stalinism and censorship. Meanwhile, a new opinion poll showed President Luiz Inácio da Silva's popularity recovering strongly along with the economy.

Argentina's economy minister, Roberto Lavagna, announced that his government wants the IMF to postpone a crucial review of his country's loan agreement from September until December. The government is hoping to complete a go-it-alone restructuring of its defaulted bonds in September. The IMF made no public response.

Chile's opposition-controlled senate rejected a government bill to levy royalties on mining companies. President Ricardo Lagos said he would continue to push for higher taxes on mining.

All in the family

AP

Singapore's prime minister, Goh Chok Tong, resigned to make way for Lee Hsien Loong, who was sworn in on August 12th. Mr Lee is the son of the island's founding father, Lee Kuan Yew.

Indonesia announced that its appeal court had overturned the convictions of four soldiers and policemen accused of human-rights abuses during East Timor's independence referendum in 1999. So far, Indonesia has dismissed or overturned all charges against its officials for their actions in the former Indonesian province.

See article

Before a trip to **Afghanistan**, America's defence secretary, Donald Rumsfeld, announced that a plan to deal with the country's opium production—75% of the world's total—is in the works. Much reduced under the Taliban, poppy growing re-emerged on a large scale after the military intervention in 2001.

In **Australia**, 43 former diplomats and defence chiefs accused the prime minister, John Howard, of misleading the public over the reasons for joining in with the war in Iraq. They also criticised his foreign policy.

See article

An area in a central province was selected as the site for **South Korea's** new capital, still to be named. The new city, intended to reduce Seoul's overcrowding and economic dominance, is scheduled for completion by 2030.

Bombs again

Turkey's government blamed Kurdish separatists for a series of bomb blasts in Istanbul, dismissing a claim by an Islamist group, linking itself to al-Qaeda, that it had planted the explosives. The bombs went off at two small hotels and a gas depot. A Turk and an Iranian were killed and several foreign tourists injured.

As **Russia** and **Georgia** continued talks on the status of two separatist regions of Georgia, tensions rose: violence erupted in South Ossetia, and Russian ultra-nationalist Vladimir Zhirinovsky defied Georgia by taking a boat to Abkhazia in mockery of Georgia's threat to fire on ships entering its waters.

Thousands of holidaymakers were evacuated from five beaches in the **Spanish** region of Catalonia after a purported bomb threat from Basque separatists raised fears of a summer bombing campaign. Police gave the all-clear after a search by sniffer dogs.

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Business this week

Aug 12th 2004
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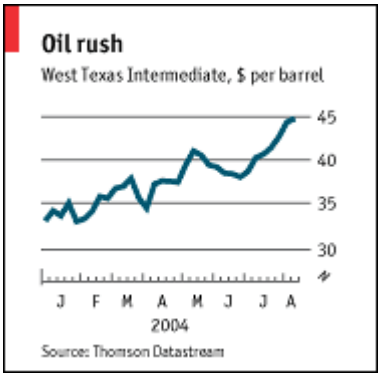
Interest rates raised

The Federal Reserve raised America's key **interest rate** by a quarter of a percentage point to 1.5%. The Fed said that signs of slowing growth and a worsening jobs market were temporary reversals caused by rising oil prices, hinting that a further rise could come next month.

See article

Oil wells up

The turmoil at Yukos and further violence in Iraq pushed **oil prices** to more record highs. Fighting in the south of the country has cut exports from Iraqi terminals in the Persian Gulf by half. Saudi Arabia again pledged to increase output to temper rising prices but sceptics reiterated that the country has almost no extra capacity.



Yukos's shares plunged after bailiffs again seized Yuganskneftegaz, its biggest oil-producing subsidiary, ostensibly to settle a tax bill of $3.4 billion—despite an earlier court ruling reversing a previous seizure. The oil giant has said that it faces bankruptcy if the unit is sold. American and Chinese officials expressed concern over the Russian government's chaotic handling of the affair.

Fares unfair

British Airways announced that profits had increased in the latest quarter to £70m ($126m) after a loss last year, but the flag carrier suffered two setbacks. BA was forced to increase fuel surcharges on long-haul routes and it faces the threat of legal action from Italy's government for undercutting ailing Alitalia's fares on competing routes.

Delta Air Lines explicitly voiced fears of bankruptcy for the first time. The American carrier says that it will go under if it fails to curb costs, including cutting $1 billion a year from pilots' pay. The airline's shares dipped.

Stelios Haji-Ioannou's plans to extend his empire to low-cost mobile phones met with a snag shortly after he announced a tie-up with Denmark's TDC to launch **easyMobile**. Orange, a French-owned network, was said to have threatened to block his use of the easyGroup's familiar orange logo fearing that it would “cause confusion” with its own branding.

Big banking

Mitsubishi Tokyo Financial Group, Japan's second-largest bank, said that it would acquire **UFJ Holdings**, the weakest of the country's “big four” banks, to create the world's biggest bank by assets. Sumitomo Mitsui Financial Group, Japan's third-largest bank, had attempted to outbid its rival and take UFJ for itself.

See article

UBS said that profits were up by 28% in the latest quarter to SFr2 billion ($1.6 billion) mainly thanks to booming business at its private-banking division. But the Swiss bank, which looks after more money for the very rich than any of its competitors, gave warning that “directionless markets” and rising interest rates would hit future profits.

The **New York Mercantile Exchange** rejected a takeover bid from Parthenon Capital, an American private-equity firm, valuing the world's leading energy-futures exchange at $1.6 billion. NYMEX's board thought the offer too low.

No Trumps

Trump Hotels & Casino Resorts said that it would seek Chapter 11 bankruptcy protection in September in order to restructure its battered finances and tackle debts of some $1.8 billion. As part of the shake-up, Donald Trump, the flamboyant property tycoon and erstwhile business guru, will see his controlling stake diminish to some 25%.

See article

Michael Eisner, **Walt Disney's** embattled chief executive, celebrated a 20% increase in quarterly profits over a year earlier, saying that such rises “do not happen by accident”. Earnings from cable-TV and theme parks offset some big box-office failures, pushing profits to $604m. Mr Eisner faces continuing attacks from dissident shareholders, led by Roy Disney, who say he has mismanaged the company.

A share of the spoils

Google settled a long-running patent dispute with **Yahoo!**, a rival internet search engine. Google will hand over shares worth some $300m in return for Yahoo!'s dropping of a lawsuit about technology used to serve up ads with search results, Google's main source of revenue.

Cisco Systems, the world's leading internet-equipment maker, reported a quarterly increase in profits of 41% compared with a year ago to $1.4 billion. But Cisco's shares fell sharply after its chief executive said that customers were “more cautious” about the prospects for the economy.

Motorola faced a tax demand in America that could amount to a whopping $500m. The world's second-largest mobile-phone maker said that it would dispute the tax bill, which relates to sales between internal units between 1996 and 2000.

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Doing business in dangerous places

Aug 12th 2004
From The Economist print edition

The world is full of risky places. What is a responsible multinational to do?

SETTING up a business abroad has always been risky, and not just financially. To create the colony of 90,000 white settlers that, in the late 17th century, earned enormous profits from growing tobacco in Virginia required the immigration of around 116,000 people. The chaps who sailed for India a century later had to endure even worse. “The variety of means by which a man could be carried off was quite bewildering,” observes a recent book on the East India Company. “Malaria, typhoid or enteric fever, cholera, dysentery and smallpox were the most common diseases, and the bites of scorpions and mad dogs were frequently lethal.”

Those who today run businesses in the nastier parts of the world also face a bewildering range of threats to the safety and health of their employees (see article). Indeed, there are many more disagreeable places to choose from than there were a generation ago. In the days of the Cold War, there was usually a government to deal with, or at worst a rebel authority. These days, a growing number of countries, or large tracts of them are run (if at all) by shifting coalitions of warlords or local bullies. Such power vacuums create potentially lethal uncertainty. They also aggravate more mundane (but no less burdensome) risks, from life-threatening driving conditions to the spread of diseases such as AIDS and malaria.

Moreover, some of the protection once offered by a white face, a red cross, a neutral flag or the passport of a Great Power has now vanished. As a result, many places that have long been dangerous have become even more so. Last month, Médecins Sans Frontières (MSF), an aid group that specialises in sending medical staff to countries in conflict, shut all its programmes in Afghanistan after five of its staff were killed in a deliberate attack on a clearly marked MSF vehicle. Taliban spokesmen said that aid organisations such as MSF were helping the Americans, something the charity vehemently denies. Anyone doing business in a conflict zone runs similar risks: driving a truck or building a telecoms network may not seem a political act to the company that undertakes the task, but followers of Osama bin Laden think otherwise.

How to be safer

For most employers, health and safety issues are generally about avoiding minor injuries and malfunctions. To send employees to regions where injury or death are real possibilities involves, on the face of it, quite a different approach. Sending staff to work in Iraq or Colombia might appear to be the reverse of good health-and-safety practice. In fact, whereas some of the principles of protecting

employees in dangerous places are different, others are surprisingly similar.

For example, the greatest risks even in some of the scariest parts of the world are not of kidnap or murder, but of illness, traffic accidents or violent crime. In the heyday of the East India Company, the single biggest cause of death of the company's employees was not mad dogs or scorpions, but the familiar drug of alcohol (aggravated by bad diet and lack of exercise). In Congo today, malaria is a far bigger risk for expatriates than murder. The good news: such threats are easier to deal with than the terrors of ambush or armed attack. One of the simplest ways to lessen risk is to get all expats, their families and local staff to wear seatbelts: prosaic but effective.

Employers sending people to dangerous places need, first of all, to be honest about what they are doing. That means thinking early about the risks involved. Too many companies entering markets in backward countries, even those not at war, greatly underestimate the cost of security. Employers also need to decide early on how big a threat to their staff would force them to withdraw. That will vary from firm to firm. KBR, part of Halliburton, has lost 42 employees in Iraq and Kuwait and yet stayed put. Many other companies would have retreated at a serious threat to just one staff member.

Being honest with employees entails—as far as possible—avoiding pressure on them to go somewhere dangerous. That is sometimes easier said than done: the oil-company engineer willing to work only in comfy places is unlikely to thrive. It also means giving staff good advance training, especially in first aid. And it means using people with experience where possible. For instance, South Africans, accustomed to working in some of the riskier parts of their continent, may understand how to deal with a threat much better than someone coming to Africa for the first time. Inexperienced staff need more specialist support, perhaps from one of the companies in the burgeoning threat-management business.

Simmering

Inexperienced staff may also be eager to go for the wrong reasons—to be able to boast that they have risked death for their work and survived. One constant hazard is the “boiling frog” syndrome. Where danger is mounting, as it seems to be now in Saudi Arabia, people on the ground may not realise it, or may prefer to pretend otherwise, until too late. Even if they do acknowledge the risk, they may stay on out of exaggerated loyalty to clients or misplaced zeal to outlast competitors. Wise companies make sure that the judgment of independent security experts goes to head office, not the local boss, and that risks are kept under constant review.

What about using local staff? They may have a better sense of danger and be less conspicuous than expatriates. Many employers in dangerous parts of the world try to keep the use of foreigners to a minimum. That is fine if they also take their responsibilities to local staff seriously, but not if the locals are put at greater risk than expatriates because they are considered more expendable.

Why go, if the risks are great? There are good reasons for operating in dangerous lands. There are people who need help, and countries to rebuild. But for companies, the lure is usually the one that led early Virginians to endure the privations of America or the British to colonise India: if the risks are great, then so too are the rewards. What matters is that the rewards are not earned at the cost of putting employees in more danger than, once properly informed, they choose to accept.

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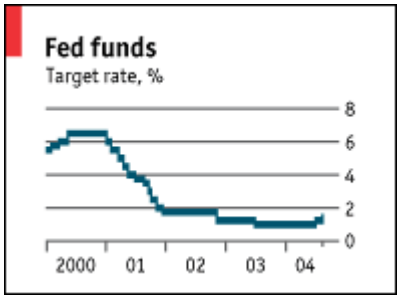
America's economy

Mr Bush's jobs problem

Aug 12th 2004
From The Economist print edition

The economy is not helping the White House



NO PRESIDENT wants to hear that the economy has stopped producing new jobs three months before election-day. But for George Bush the news that only 32,000 new jobs were created in July is doubly troubling. This paltry number makes it almost certain that he will be the first president since Herbert Hoover to face the electorate with an economy that has fewer jobs than when he took office (as John Kerry's campaign delights in pointing out). What makes this all the more embarrassing, however, is that the White House has lately gone out of its way to claim responsibility for the short-term performance of the jobs market.

After enduring months of a “jobless” recovery, George Bush's team was quick to claim credit earlier this year when the pace of job growth finally accelerated. John Snow, the Treasury Secretary, argued that the creation of over 300,000 new jobs in March “clearly demonstrated” that Mr Bush's tax cuts were working. These tax cuts, he suggested, were “driving job creation”. The administration did not simply claim that the huge fiscal expansion of the past three years had helped cushion America's recession (which would have been correct). It went much further. Tax cuts, intoned every Bush official, were the elixir behind the jobs recovery.

Now that the payroll figures have weakened, the Bush team is squirming. White House aides offer a slew of reasons why the statistics which just a few months ago “clearly demonstrated” the wisdom of Mr Bush's economic policies should now be discounted. The president himself pretends the bad news simply does not exist. “We have a strong economy and it's getting stronger,” he claimed only hours after the jobless figures were released on August 6th.

The truth is that America's economy has cooled during recent months (see article). Consumer spending slowed during the second quarter, particularly in June. Employers are once again leery of hiring new workers. It is too soon to say whether this is a temporary blip or something worse. Much depends on what happens to oil prices. The Federal Reserve this week sounded fairly optimistic, which might have helped the administration politically, except for the fact that the Fed therefore judged it right to push short-term interest rates up another quarter-point, which was decidedly unhelpful to the White House. If oil prices continue their upward march, some mixture of slower growth and higher inflation will follow, and Alan Greenspan's optimism could prove misplaced.

Either way, the current hiccup can hardly be blamed on Mr Bush. And, in any case, there is precious little he can do about it. The short-term vagaries of the business cycle are beyond the reach of any president. That is why claiming otherwise when the news was good was a foolish risk for the Bush team to have taken. They gambled on the economy, and for the moment at least they appear to have lost.

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Iraq

High noon in Najaf

Aug 12th 2004
From The Economist print edition

And a high-stakes gamble for George Bush

AP

IN GEORGE BUSH'S game plan, nothing too violent was supposed to be going on in Iraq right now, what with an American election due in November and, it is hoped, an Iraqi one in January. But it became clear long ago that America's ability to dictate events in Iraq has limits. For more than a week its soldiers have once again been doing battle in Najaf with the “Mahdi Army”, the militia commanded by a junior Shia cleric, Muqtada al-Sadr. On August 12th, American marines seemed to be making good on the promise of Iyad Allawi, Iraq's interim prime minister, to smash Mr al-Sadr's mutiny once and for all and wrest back control of the holy city. Mr al-Sadr had refused Mr Allawi's requests to leave Najaf. After fortifying the sacred Imam Ali mosque, he swore to fight to the death against the infidel and his local stooges. His fate was unclear as *The Economist* went to press.

This is glum news. When the American-led coalition handed power to Mr Allawi's UN-appointed government at the end of June, the idea was that Iraqis would stop feeling the sting of foreign occupation. Nobody expected universal loyalty to an unelected administration, but it was hoped that most would give up “resistance” and await the election of a representative government in January. A good many Iraqis seem to have done so: despite days of terrible violence, the overall rate of bombings has slowed. But the fight in Najaf shows that a well-armed and highly motivated segment of the country's most numerous group has other ideas.

It is true that Mr al-Sadr has never spoken for all Shias. Many members of the Mahdi Army in Najaf hail from farther afield and are resented by local residents. Among most middle-class Iraqis the voice of Ayatollah Ali Sistani, a champion—when he deigns to utter political thoughts—of peaceful elections, counts for more than Mr al-Sadr's. But the ayatollah is at present in London for medical treatment, and the junior cleric's message of anti-American defiance has meanwhile won widespread support among younger Shia have-nots. Even if the Mahdi Army is routed in Najaf, it will still have arms and supporters elsewhere in Iraq, not least in Baghdad itself, in the slums known as Sadr city, after Muqtada's father, who was a foe and victim of Saddam Hussein.

By storming into Najaf, the Americans know all too well the dangers they are courting. In April, when they tried to pacify the Sunni town of Fallujah, the bloodbath came close to uniting all Iraqis against them. That is why they pulled out with the job undone. In Najaf, with its holy Shia shrines, the Americans have even stronger reason to be cautious, lest they turn another of Iraq's sectarian groups permanently against them. That would hurt not just the Americans, but also Mr Allawi's interim government, which for the foreseeable future depends on American forces for its survival.

Although he likes to act tough—he has restored capital punishment, declared martial law and banned the

al-Jazeera television network—Mr Allawi must know that sending American soldiers to kill Iraqis on his behalf is not a foolproof way to make himself popular. Some Iraqis, distraught at the chaos that has reigned since the invasion, will no doubt welcome the slap of firm government. More are liable to feel that Mr Allawi has aligned himself too closely with the occupiers.

The reaction of the Shias will matter most. Many Shias have noticed that since the Americans' failure to crush the Sunni insurgents in Fallujah, the central government has largely given up trying to run many of the Sunni areas in the centre of the country. Where the police operate, it is often only with the say-so of local Sunni gunmen. As for the north, the Kurds have long relied on their own *peshmerga* forces. A feeling that the whole country was slipping out of control could have been what persuaded the Americans to hammer Mr al-Sadr. The Shias, however, may wonder why the country's most numerous group, which suffered more than the Sunnis did under Saddam's regime, are being singled out by the liberator for exemplary punishment.

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Venezuela's referendum

The case against Hugo Chávez

Aug 12th 2004
From The Economist print edition

Making liberal democracy work in Latin America is a slog—but the alternatives are far worse

AFP

Get article background

TO HIS supporters, both inside and outside Venezuela, Hugo Chávez is a cross between Che Guevara and Mother Teresa. He is, as they see it, the standard-bearer of a superior alternative to a Latin America impoverished by “neo-liberal” economics and elitist, merely formal, democracy. Mr Chávez, a former army officer and Venezuela's elected president since 1998, has harried his country's “oligarchy” and championed the poor. His “Bolivarian Revolution” (named after South America's independence hero) has ambitions beyond Venezuela's frontiers. It supports and has the sympathy of radical social movements from Argentina to Mexico.

On Sunday, this “revolution” faces an unprecedented test in the shape of a recall referendum on the president (see article). If Mr Chávez wins this, as his supporters now predict, it will be for a mixture of three reasons.

The first is that high oil prices have brought Venezuela a windfall that Mr Chávez is busily spending on social programmes (known as “missions”). These programmes have a political purpose and message: the government has mobilised all the resources of the state to secure a vote against recall.

Second, there are other doubts as to how free and fair the vote will be. The referendum is a device inserted into the constitution by Mr Chávez himself. But he spent almost two years manoeuvring to avoid what his supporters portrayed as an underhand attempt by an American-financed opposition to unseat a democratically elected president. The electoral authority has a pro-Chávez majority. It has placed restrictions on observers. If the outcome is close, fraud is a real fear.

Third, Mr Chávez is genuinely liked by many Venezuelans. Not all of the poor are with him. But he has inspired a sense of political inclusion among many neglected by the previous, increasingly corrupt two-party pact. By contrast, his fractious opposition is unattractive. Most are democrats, but some are not: they staged a failed coup against Mr Chávez in April 2002.

But the subject of the referendum is the president, not his opponents. After more than five years of Mr Chávez, the case against him is a compelling one. It is not that he will turn his country into another Cuba—Venezuelans will not allow that. Nor is it that he is a dictator. He led a failed coup in 1992, but in office he has been careful to respect most democratic forms. (Admittedly, there are worrying signs: he is

packing the judiciary with loyalists, and harrying opposition journalists and local police forces.) Nor is it just that he has impoverished and divided his country—though he has indeed done both.

Rather, the case against Mr Chávez is that for the values of liberal democracy—pluralism, openness, checks and balances, and the equality of citizens before the law—he substitutes those of populism: partisanship and confrontation, the concentration of power in his own hands, the blurring of the lines between president, government and state, and the granting of benefits to the poor in return for their political loyalty. Similarly with the economy: instead of using the oil windfall to lay the basis for diversification and sustained growth, the president is spending it on handouts. This is a well-tried, reactionary formula; one that has been a big factor in Latin America's disappointing performance.

The liberal tortoise will beat the populist hare

Against that, it might be argued that many Latin Americans believe that liberal democracy has failed to reduce widespread poverty and searing inequalities (see the Latinobarómetro poll). In fact, progress is being made, albeit slowly. Democracy has brought increased (and better directed) social spending. Economic growth has returned after several years of stagnation. New political forces and the alternation of power are making politics more representative. Turning liberal democracy into a prosperous reality in Latin America remains a work in progress. But it is one that offers far more benefits than the false promise of populism, a formula for temporary handouts and sustained decline.

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Letters

Aug 12th 2004
From The Economist print edition

The Economist, 25 St James's Street, London SW1A 1HG
FAX: 020 7839 2968 E-MAIL: letters@economist.com

Tropical news

SIR – Usually, you put a premium on clear property rights and their vital role in ensuring incentives to invest and protect assets ("Saving the rainforest", July 24th). But you state that the rainforests are owned by the "countries they cover", failing to identify who really owns the forests. Indeed, ambiguity and uncertainty is the rule—a key factor undermining all conservation efforts. In most forested tropical countries, governments continue to claim all if not most of forests.

The good news is that some governments are changing their policies and have started to recognise indigenous land rights and those of other communities. Some 25% of all tropical forests are now legally owned or administered by these groups—a figure that has doubled in the past 15 years and looks likely to double in the next. New research shows that communities with clear rights invest at least twice as much as governments do to protect their forests. They also tend to be some of the poorest of the poor. Where progress has been made, new markets for ecosystem services and other promising innovations are possible. Payments can be used not only for widespread conservation but to elevate the poor out of poverty.

Michael Jenkins
Forest Trends
Washington, DC

SIR – The Amazon Region Protected Areas (ARPA) programme that you mention is a partnership between the government of Brazil, the World Bank, WWF and others. This programme is investing $400m over ten years to protect the most biologically rich and representative areas of the Amazon, including those in states with high deforestation rates. When complete, ARPA will link a chain of strictly protected areas and those designated for sustainable use into a network that will not only safeguard 12% of the rainforest but act as a buffer against the spread of deforestation into other areas too. ARPA is also part of the Plan to Combat Deforestation in the Amazon, announced by Brazil's government five months ago.

Denise Hamú
WWF-Brazil
Brasilia

SIR – Tropical countries have every right to cut their forest, as we did most of ours, but that does not make it a good idea. These countries have the chance to make smarter choices. Some have vast forests and the benefit of science to tell them what lives there and what use it might be. While markets for things like carbon and water hold promise, they should not be oversold—transaction costs are high and production is hard to measure. A measure of simple global philanthropy and stronger governance is needed to finance tropical conservation and make it stick.

John Reid
Conservation Strategy Fund
Philo, California

Water feature

SIR – You are most unkind about the Princess Diana memorial ("The people's pestilence", July 31st). All

public fountains and baths experience health-and-safety problems. The miasmas affecting Dianaphiles are not specific to this cult. Even pristine alpine baths are scrubbed weekly to rid them of algae and germs. This would be a small price to pay to ensure that the waters of Diana are the pride and joy of Hyde Park.

Christophe Girot
Zurich

Intelligence debate

SIR – I read Efraim Halevy's critique of American intelligence with considerable discomfort (By invitation, July 31st). My experience in the State Department's Bureau of Intelligence Research 50 years ago is that the intelligence assessments were carefully assembled, producing results couched in terms that would give the decision-makers great understanding of the issues involved. What they did with the intelligence depended on their own experience and knowledge of the situation.

In the case of the September 11th attacks and Iraq, the best intelligence and assessment would not have been accepted by the decision-makers. Senior members of the Bush administration had preconceived notions of what was happening in the world and what America needed to do about it. Fiddling with the organisation of the intelligence community will not change that.

John Bennett
Alexandria, Virginia

Free the workers

SIR – Your assessment of excessive labour-market regulation in Europe should serve as a wake-up call for the British government ("Thirty-five hours of misery", July 17th). Britain's economy has enjoyed the benefits of a flexible labour market. However, businesses now face the threat of losing the opt-out from the working-time directive's 48-hour week; a 7.7% increase in the national minimum wage; the probable extension of paid maternity leave to 12 months; the loss of the ability to set retirement ages; new flexible-working requirements; and extra costs for employing temporary staff. The damaging impact of excessive labour-market regulation may be about to hit Britain.

Lewis Sidnick
British Chamber of Commerce
London

Rich and powerful

SIR – Philanthropy is but a euphemism for the wielding of power by the rich ("Doing well and doing good", July 31st). When politics makes the ever-larger concentration of wealth at the top an explicit objective, we are dealing with more than economic policy. We are trusting the very rich with the moulding of the social fabric. One may find this desirable but in no case should it be cloaked in the mantle of sweet generosity.

George Sai-Halasz
East Greenwich, Rhode Island

Mouths to feed

SIR – It is good to see *The Economist* speaking about the links between hunger, economic growth and poverty reduction ("Food for thought", July 31st). For too long, our claim that reducing hunger is an essential first step towards tackling poverty has fallen on deaf ears. One of the attractions of hunger eradication is that, apart from making economic sense, it is entirely feasible and not that expensive. Whether hunger is eradicated is essentially an issue of political will and good priority setting. Low priority has been given to direct action partly because many economists say that hunger will only fall as a result of economic growth.

Many of us would argue that the world would become a safer place when fewer people are driven by extreme deprivation to desperate deeds. A belief in the power of concerted action has led the four Rome-based UN food and agricultural-development agencies to team up with NGOs to launch an International

Alliance Against Hunger.

Eva Clayton
Assistant director general
UN Food and Agriculture Organisation
Rome

The waiting game

SIR – No, Sudan can't wait (Leader, July 13th). But the UN and its bureaucracy can—for a very long time.

Richard Stanley
Dellwood, Minnesota

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Chasing al-Qaeda

Plots, alarms and arrests

Aug 12th 2004
From The Economist print edition

How significant was the recent flurry of terrorist revelations? Some follies aside, it shows that the threat has changed

Get article background

YOU do not need to be a doubting Democrat to have arched a sceptical eyebrow at the recent antics of America's Department of Homeland Security. On August 1st, the department declared there to be a “high risk” of a terrorist attack on several financial institutions in the United States, including the New York Stock Exchange and the headquarters of the IMF and the World Bank in Washington, DC.

As the warning of a national threat flashed to orange—reaching its second most alarming level for the first time in six months—snipers and sniffer dogs took to the streets. In Washington, trucks were searched and roadblocks were mounted, while in New York a tunnel and several roads were sealed. Steel pickets mushroomed around the 24-storey Prudential Plaza in Newark, New Jersey. Did all this suggest a political agenda? As the headlines shifted, John Kerry, the Democratic presidential candidate, tried in vain to locate the expected “bounce” from his party's freshly ended convention.

As he sounded the alarm, Tom Ridge, the homeland security chief, offered a toadying tribute to the leadership of President George Bush. But, alas, a few hours later, a curiously overlooked detail had emerged.

Though based on new-found intelligence, the threat to America's financial establishments was not new. It had been identified from a cache of al-Qaeda computer files, seized in Pakistan two weeks before, which contained detailed plans of the buildings and suggested ways to topple them. With the possible exception of one photograph—which had either been updated or merely accessed last January—the files were at least three years old. They clearly predated the atrocities on September 11th 2001. They also contained no information that was not, in one form or another, already publicly available.

America's journalists were among those left wondering whether they had been frightened unnecessarily—and if so, as they waited for an election in November where security is expected to be a big issue, to what purpose. As their doubts rose, the initial trickle of leaked intelligence began suddenly to swell.

The computer files in question were said to have been found in the Pakistani towns of Lahore and Gujarat following the arrest of two important al-Qaeda agents. The first of these, Mohammed Neem Noor Khan,

was allegedly a communications specialist, responsible for keeping terrorists in touch with each other through cyberspace. The second was Ahmed Khalfan Ghailani, a Tanzanian militant wanted to the tune of $5m for the 1998 bombings of American embassies in East Africa.

The information that they and their files supplied led to the arrest of another 13 Muslim men in Britain on August 3rd. Among them was said to be one of the main compilers of the alarming computer files, a British-raised Indian, known as Abu Eisa al-Hindi, or al-Britani as he is identified in the September 11th commission's report. He is also wanted for plotting an attack on London's Heathrow airport that failed to take place early last year.

American officials acknowledged that the rumbled terror plot appeared to have been lying dormant. But they hinted that it was nevertheless linked, in some vague way, to another threat: an al-Qaeda attack on America to coincide with the elections. It was this that made the seemingly dormant plan of such urgent concern—an urgency that most newspapers, sweetened with a few more juicy titbits, were eventually persuaded to accept. One such titbit: to impress snobbish security guards outside the Prudential building, the suicide bomber was allegedly advised to cram his bombs into a stretch limousine; he might also wish to consider taking a helicopter tour of the New York skyline.

Like hunting birds

To any remaining doubters, bothered perhaps by the intelligence services' patchy recent record, the leakers observed that in every indisputable prior example of an al-Qaeda attack, meticulous plans had been made, and then mothballed for several years before eventually being revived and brought to fruition. The depressing inference from this was that the latest state of emergency might therefore have to remain indefinitely. Also depressing was the analysis of some of the intelligence sources, such as the one who told *Time* magazine: “It's like hunting birds: you scare 'em up, they run, then you shoot them.”

With a fortnight's hindsight, the urgent security measures imposed in Newark and elsewhere do seem a trifle panicked, clumsy and of doubtful long-term practicability. Most of the affected roads have already been reopened, and many of the gunmen withdrawn from view. But maybe the exercise was still valuable.

First, it was a test of how the newly reformed emergency services are functioning. Thomas Kean, the chairman of the recently disbanded September 11th commission, applauded the services' “heightened sense of urgency”. Second, and more important, there remain strong reasons to suspect that al-Qaeda could try to revive its plan of attack. Indeed, this is suggested by the intelligence that has been gathered in Pakistan.

A key starting-point was the capture of Khalid Sheikh Mohammed, an alleged mastermind of the September 11th attacks, in Rawalpindi in March 2003. Contrary to a view that had been gaining ground among western spies, the information extracted from Mr Mohammed and other detainees suggests that al-Qaeda has not been completely dispersed by the American attack on Afghanistan, but has retained its organisational core.

In particular, it alerted Pakistani, American and British intelligence services to two previously unknown terrorists, who were believed to link the group's fugitive leadership in northern Pakistan and Afghanistan with devotees outside the region. The first was a logistician, skilled at posting encoded messages on the internet, and known as Abu Telha al-Pakistani. The second was the already mentioned Abu Eisa al-Hindi. According to an intelligence officer involved in this search, both wanted men had direct links to a second-tier al-Qaeda leader, who is believed to be hiding in Pakistan, and may be the most active of the group's senior men. He is believed to have been recently plotting the terrorist attack on America, already mentioned, that would coincide with November's presidential election.

Shortly before his arrest in Lahore, Mr Khan, a 25-year-old engineering student from Karachi, was identified as being Abu Telha al-Pakistani. Mr al-Hindi, the surveyor of America's financial establishments, had already been identified by British intelligence services as a 32-year-old Hindu convert. He had possibly given the game away by publishing under his *nom de guerre* a memoir of his experience of *jihad* in Indian-controlled Kashmir. While under sporadic surveillance, he was believed, temporarily at least, to have shelved his plan of attack on Heathrow airport. He was arrested nonetheless after intelligence derived from Mr Khan and Mr Ghailani indicated that he was in the advanced stages of plotting a fresh attack, on another target in London.

Numberless plots, and plotters

So much for al-Qaeda's vile schemes, but could the group still carry one off? The discovery of a mothballed plot, however detailed, should not necessarily suggest so. Even before al-Qaeda's leaders suffered the disruption of being turfed out of Afghanistan in 2001, they commissioned and rejected numerous such studies. Or as Brian Jenkins of Rand Corporation puts it, “if we had every terrorist plan, we'd have more scripts than Warner Brothers.”

Needles in a haystack

In October 2001, the United States produced a list of 22 “most-wanted terrorists”, offering a reward of up to $5m for information leading to their arrest. So far only three of the 22 have been captured or killed: Muhammad Atef, Khalid Sheikh Mohammed and Ahmed Khalfan Ghailani. All the rest remain at large.

Later lists include these suspects still at large...

Suspect	Nationality	Function	Suspect	Nationality	Function
Osama bin Laden	Saudi	mastermind	Ayman al-Zawahri	Egyptian	Bin Laden's deputy
Abu Musab al-Zarqawi	Jordanian	involved in Iraq	Sheikh Said	Saudi	runs finances
Saif al-Adel	Egyptian	security chief	Abu Muhammad al-Masri	Egyptian	training camps
Sulaiman Abu Ghaith	Kuwaiti	spokesman	Thirwat Salah Shirhata	Egyptian	Zawahri's deputy

...and these captured

Suspect	Nationality	Arrested	Alleged role
Mohammed Neem Noor Khan	Pakistani	Pakistan	communications and cyberspace specialist
Abu Eisa al-Hindi	British	Britain	planned various attacks, including Heathrow
Abu Zubaydah	Saudi	Pakistan	recruiter and operational planner
Ramzi Binalshibh	Yemeni	Pakistan	member of al-Qaeda cell in Hamburg
Muhammad Haydar Zammar	German	Morocco	Syrian-born member of Hamburg cell
Ali Abdul Rahman al-Ghamdi	Saudi	Saudi Arabia	head of operations in Saudi Arabia
Abd al-Rahim al-Nashiri	Saudi	UAE	head of operations in the Gulf
Mounir al-Motassadek	Moroccan	Germany	Convicted by German court in connection with 9/11 but now facing retrial or deportation

Sources: BBC; *The Economist*

Moreover, if the arrests of Mr Ghailani, Mr Khan and Mr al-Hindi were counter-terrorism triumphs, such triumphs are all too rare. More typical is the likely fate of most of the other men recently arrested in Britain. Four of the detainees were swiftly released, although two were re-arrested, charged with holding fake documents.

Another arrested man, Babar Ahmad, was alleged to have been detained at America's request, and charged with fund-raising for militants in Chechnya and Afghanistan. Reportedly a cousin of Mr Khan, and suspected of having obtained information about American naval exercises, Mr Ahmad may be guilty of terrible crimes; but, then again, he may not. His arrest prevented him from giving a presentation to an Islamic conference in London about his previous arrest and release. If he is ever formally charged with terrorism, Mr Ahmad should perhaps also be made to answer for his gall.

No laughing-stock

No seasoned punter would bet on that eventuality. David Blunkett, Britain's home secretary, has attempted to distance himself from the very public way in which America handled the recent threat. Writing in the *Observer*, a Sunday newspaper, he suggested that “detailed [public] scrutiny” by politicians and their servants ran the “potential risk of inviting ridicule”. He should know. Last April, 400 British police officers seized ten Muslim men, accusing them of plotting to blow up Old Trafford, home to Manchester United, a British football team which is also probably the Arab world's most popular team. All ten were subsequently released. Last month, Mr Blunkett said that, since the September 11th attacks, 562 people had been arrested under a counter-terrorism law. Of these 97 had been charged with offences under the act, and 14 had been convicted.

Equivalent figures for America are much harder to find. According to Magnus Ranstorp, a terrorism expert

at St Andrews University in Scotland, they would be “minuscule compared to the number of arrests made in Europe”. Efforts to ensnare the original list of al-Qaeda's most-wanted men are also going slowly. Of 22 top terrorists listed by America in October 2001, only three have been captured or killed, including Mr Mohammed and Mr Ghailani.

In the governments' defence, these figures do not tell the whole story. Counter-terrorism officers say muscular powers of arrest enable them to disrupt terrorists' networks and their plans to attack, even when there is insufficient evidence to convict them. But governments do not tell the whole truth either.

Early this year, in an apparent bid to dampen speculation that the war in Iraq had diverted America from the war on terror, and without laying claim to any fresh intelligence, senior American officials in Afghanistan vowed to have Osama bin Laden behind bars by the year's end. Then, last week, in an apparent bid to dampen speculation that their security measures were over the top, government officials reportedly suggested that Mr bin Laden himself could be behind the new-found threat. Which is true? Has brave America got Mr bin Laden cornered? Or is America bravely stepping up to face head-on a renewed threat from Mr bin Laden?

Both, is the answer. Ever since its fame began to spread through the embittered Muslim world, al-Qaeda has been at once an organisation of Islamic extremists and an ideology of Islamic extremism.

With most of its leaders probably now lurking in the wilder parts of South Asia, deprived of their radios and telephones by fear of detection, the group's organisational function has shrivelled. Although Mr Khan's activities suggest that al-Qaeda is still more cohesive and active than has often been said, its card-carrying members represent nothing like the threat they did when Mr al-Hindi allegedly cased the New York Stock Exchange in late 2000.

But in its second coming, as the battle-standard and the ideology for a generation of militant Muslim youth, al-Qaeda is scoring a nightmarish success. Witness the case of Abu Musab al-Zarqawi, the Jordanian believed to be leading hundreds of Islamist militants in Iraq. While running terrorist training camps in Afghanistan ten years ago, Mr Zarqawi was Mr bin Laden's rival of sorts. Now, wanted for the same $25m bounty as Mr bin Laden, he is routinely described as the head of al-Qaeda operations in Iraq.

Noting this shifting role, Jason Burke, a writer on al-Qaeda, says: “Since 9/11, there's been a rampant dissemination of al-Qaeda's ideology, which, even if its capability has diminished, has made it far easier for the group to recruit individuals.” The result, Mr Burke predicts, will be fewer spectacular strikes, such as those of September 11th, and many more small-scale, more randomly directed attacks, such as this year's bombings in Madrid. As in Madrid, these attacks will often be carried out by individuals who have only a passing contact with the al-Qaeda organisation, even if they claim to be members of it.

For any American president hoping to claim victory in the war on terror, such an analysis brings both good news and bad. Massive, potentially election-wrecking attacks look less likely, though not impossible. On the other hand, it would no longer be possible to claim—as Mr Bush would doubtless like to be able to claim—that by knocking out Mr bin Laden, the war had been taken to its final round.

Bringing in Pakistan

Ironically, perhaps, a happier prospect for America is that if al-Qaeda should increasingly become the label of choice for all Islamic militants, its ire would be redirected towards an increasing number of local enemies, giving America some much-wanted allies. This process can already be tracked in Pakistan.

Though persuaded by America to lambast al-Qaeda nearly three years ago, Pakistan's military government has been slow to reject the local *jihadi* groups where the outlawed militants often find support. Indeed, the generals have traditionally fostered such groups, to furnish themselves with a proxy force to stamp on secular opposition parties at home and to prosecute wars in neighbouring Afghanistan and Kashmir. One such group, originally named Herkat-ul-Jihad-I-Islami, which has close ties to al-Qaeda, has twice re-emerged under a (slightly) different name since being banned two years ago.

But a spate of recent terrorist attacks, including two attempts on the life of Pervez Musharraf, Pakistan's president, in the past year, may be stiffening the government's resolve to break with its pet *jihadis*. Pakistan's secret police could not have grabbed Mr Ghailani, for example, without confronting the local militant group that will certainly have been giving him succour. “The government has tended to look after ‘its' militants and ban others, instead of recognising that all militancy is bad for Pakistan,” says Samina

Ahmed of the International Crisis Group, a thinktank. “Hopefully these arrests signal a new commitment to dismantling not only al-Qaeda, but the entire network.”

These are muddied waters. Even so, America's response to its recent intelligence alert looks hamfisted. If the Department of Homeland Security was right to instigate emergency measures against the threat of a pre-election attack, it seems odd that those measures should already have been scaled down. It is notable that Britain, which was apparently also subject to a specific threat, imposed no additional security precautions. And the European Union's head of counter-terrorism, Gijs de Vries, reportedly remained on holiday.

The changing threat

A very tentative conclusion is that while America is practising for another September 11th, the threat of Islamic militancy is becoming less spectacular, more general and more unpredictable. In short, it may be becoming more like the sort of insurgencies that Britain has fought during many decades.

Accordingly, says Rand's Mr Jenkins, Americans must learn not only to minimise the threat of al-Qaeda, but also to live with it. “Americans can't be phlegmatic,” he laments, “there's no question we've cranked up the threat. Whereas the Brits are capable of taking the long view, of seeing that this is a long-term problem, Americans look to do everything for short-term gain.” He argues that the American public needs to get risk-savvy, and the authorities need to find ways to handle the intelligence better, so that they can alert the nation to the threat of terrorism in a way that does not alarm people unduly.

Such lessons will probably take another terrorist threat or two to master, but mastered they may eventually have to be. Because, as most al-Qaeda watchers agree, a quick end to the war on terror is very hard to envisage.

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The economy

Losing its way

Aug 12th 2004 | WASHINGTON, DC
From The Economist print edition

AP

The vigour of America's expansion is once again in doubt

IS AMERICA'S economy in trouble? With oil prices hitting new highs of over $45 a barrel this week, and with the latest figures showing a measly 32,000 new jobs created in July, the question is fraying nerves on Wall Street and in the White House.

In recent weeks, the stockmarket has been weighed down by news that the economy slowed unexpectedly in the second quarter of the year. GDP grew at an annual rate of 3%. That hardly sounds like a recession, but it is still much lower than the 4.5% pace of the first three months of this year, and the slowest rate of economic growth for more than a year. Consumer spending, in particular, slowed down, rising by only 0.9% in real terms. The abysmal July jobs figures—analysts had been expecting a gain of more than 200,000 jobs—have raised fears that this “soft spot” may be something more serious.

For George Bush, who makes much of the fact that the economy has “turned the corner”, the timing could hardly be worse. Election day is less than three months away. Mr Bush is keenly aware that, in 1992, perceptions of stagnant growth helped doom his father in the election, though the economy had in fact begun to rebound. Opinion polls suggest in any case that voters already rate John Kerry, Mr Bush's Democratic rival, more highly on economic issues.

America's central bankers made clear this week that they are not among the worriers. The Federal Reserve raised short-term interest rates on August 10th by a quarter-point, to 1.5%, as part of its “measured” march towards tighter monetary policy. That much was expected. With interest rates still negative in real terms, it would have taken more than the threat of a growth pause to cause the central bank to change course so quickly.

More surprising was just how forcefully the central bankers put themselves in the optimistic camp. Although their policy statement acknowledged that in recent months “output growth has moderated and the pace of improvement in labour market conditions has slowed”, they put the blame squarely on higher energy prices. They went on to suggest that the economy was “poised to resume a stronger pace of expansion”. In other words,

the summer soft spot was an oil-induced blip that will not last for long.

Pessimists disagree on several counts. Many argue that America's expansion was always a lot less robust than it seemed, and highly dependent on monetary and fiscal stimuli. With interest rates heading higher and no more tax cuts in sight, the debt-laden consumer, argue the Cassandras, was bound to pull back from his spending binge, particularly when the jobs market is so lacklustre.

All this suggests that the slowdown in consumer spending during the second quarter was part of a longer-term trend, as Americans at last are forced to save more. Consumer spending in the second quarter of 2004 grew at its slowest quarterly pace for three years. Pessimists expect this trend to continue. By taking an extra bite out of people's wallets every time they fill up the car, high energy prices merely exacerbate the inevitable consumer retrenchment.

The best piece of evidence to support this gloomy analysis is the sickly jobs market. Put together July's paltry figure with June's (which was also revised down) and you get an average monthly job growth of just 55,000 for the two months, compared with a monthly average of 225,000 during the first five months of the year. Job growth of 55,000 is barely a third of what is needed to keep up with increases in the workforce, and certainly not enough to create the income necessary for a spending boom. Early signs suggest that spending may have bounced back in July—motor-vehicle sales, for instance, returned to a healthy 17.3m on an annual basis in July after only 15.4m in June. But if the job market really has stalled, particularly when interest rates are rising, that rebound could be cut short.

At issue is how much weight to put on those awful jobs figures. As Republicans are quick to point out, the employment figures collected from the household survey tell a rather different story to the payroll figures: household employment rose by 629,000 in July. But although these household figures include self-employed workers, they are also widely regarded as a much less reliable series, not least because the sample on which the numbers are based is much smaller.

Other indicators hint that things may not be so bad in the jobs market. Average hourly earnings and hours worked both rose in July, implying faster growth in wage income. All the indices of consumer confidence improved. In the Conference Board's survey, consumer confidence was at its highest level for two years, and the number of people saying jobs were “plentiful” rose by 1.5 percentage points, to 19.8%, also the highest level for two years. All this suggests that the spending outlook may not be so gloomy.

The shock of oil

Unless, that is, oil prices spoil the party. Even if the economy looks reasonably robust, oil at $45 a barrel and possibly heading higher is a serious cause for concern. To be sure, oil prices are well below their historical peaks in real terms, the rise has been gradual, and America's post-industrial economy is much less dependent on oil than it was during the shocks of the 1970s. But, at the same time, each of the past five recessions has been preceded by some form of oil shock. Economic models suggest that even oil prices of $45 a barrel would not significantly derail an economy that was growing at an annualised rate of 3% in the second quarter. But some analysts fret that the economic impact of oil prices is asymmetrical. A move from $45 to $50 a barrel, in other words, could have a much bigger impact than one from $35 to $40.

What are the chances of even higher oil prices? In the short term, that depends most on what happens to the “fear factor”—the worries about potential supply disruptions, whether from terrorist strikes in the Middle East or political strife in Venezuela, which, in the opinion of many oil analysts, are adding $10 or more to the price of a barrel of oil. (In presenting his plans for energy independence this week, Mr Kerry put this fear factor at between $8 and $15 a barrel and squarely blamed Mr Bush—see article.)

Despite Saudi Arabia's pledge this week to supply enough oil to prevent soaring prices, there is simply not enough spare production capacity for a big short-term boost to supply. And, despite the higher prices, demand remains strong. That leads many oil analysts to conclude that oil prices, in the short

term, could go higher yet. Daniel Yergin of CERA, an energy consultancy, reckons there is a 50% chance that they will reach $50 a barrel in the next 50 days. If that happens, the economy's sputter may well turn into a definite slowing down.

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John Kerry's energy policy

A trio of surprises

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The greens' favourite shows his spots

Reuters

Paying the Bush premium

FOR months, John Kerry has been bashing George Bush on energy. Mr Bush's foreign wars, he argues, have increased the risk of America's reliance on oil from the turbulent Middle East. Policies at home amount to coddling for Mr Bush's pals in the energy industry. And the president's policies are remarkably ungreen.

For ages, Mr Kerry's own policies have been a mystery. His slogan has been “energy independence”—a vacuous and misleading phrase used by politicians of both parties. Since America guzzles a quarter of the world's oil but sits on only 3% of its proven reserves, it will never be “independent” of oil—at least, not until that distant day when it replaces all its petrol-fired vehicles with something radically different.

Now, in a speech near Kansas City on August 6th, Mr Kerry has fleshed out his views in proper detail. He began in familiar fashion, by blaming the Bush administration's policies in the Middle East for adding $8-15 a barrel to the price of oil. To encourage home-grown alternatives to Saudi oil, Mr Kerry would spend some $30 billion to subsidise carmakers and utilities to convert plants to cleaner technologies and to encourage Americans to buy cleaner cars. He has also set a target of 20% for renewables in both the power sector (through wind and solar power) and car fuels (through biofuels such as ethanol).

There are three surprises here. First, Mr Kerry's overall policy bears more than a passing resemblance to Mr Bush's. Can you guess which candidate strongly supports nuclear plants, wants $10 billion in subsidies for helping today's coal plants get cleaner, more money for tomorrow's “clean-coal” technology and even proposes billions in giveaways to the car industry? Yes, Mr Kerry. He, too, needs votes among the car plants of Ohio and the coal mines of West Virginia.

The second surprise is that, despite his popularity with environmental groups, Mr Kerry's energy platform is not radically green. Unlike Mr Bush, he has embraced explicit targets for renewable energy—but with no enforcement teeth. He has also talked about raising the fuel efficiency of cars and trucks, an issue Mr Bush detests—but he has softened his earlier explicit target for toughening efficiency standards. He even had kind words last week for the green monsters: “You want to drive a great big SUV? Terrific...but don't you think it makes sense to be able to drive one that gets better fuel mileage?”

That remark points to the last, and biggest, surprise. On balance, Mr Kerry seems to have come up with a promising energy policy. Though he has set aggressive green goals, he wisely chooses to keep all domestic energy options open. He wants to introduce caps on emissions of greenhouse gases, but favours market-friendly approaches such as trading to keep costs down. And, most impressively, he promises a shift to micropower technologies such as fuel cells, as well as to the “smart” distributed energy grid of the future.

The risk is that he will too often favour government intervention over market forces. However, it is hard to imagine things getting worse than under Mr Bush, who has failed to push his horrid energy plan, laden with $100 billion in pork, through Congress. Somewhere between those “toxic Texan” policies and the hyper-green sort once advocated by Al Gore, a sensible energy policy may yet emerge from Mr Kerry. Watch this space.

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The CIA

The right man?

Aug 12th 2004 | WASHINGTON, DC
From The Economist print edition

Porter Goss is an old hand, but not a neutral one

Getty Images

About to be downsized

Get article background

NOBODY should have been surprised by George Bush's decision to nominate Porter Goss, an eight-term Republican congressman from Florida, to head the Central Intelligence Agency. Mr Goss has been chairman of the House Intelligence Committee since 1997. He has a decade's experience on the sharp end of the intelligence business as a former clandestine CIA agent. And he is Mr Bush's sort of chap: a sunbelt businessman-turned-politician who was nevertheless educated at a posh east-coast private school and Yale University.

Yet Mr Bush's announcement provoked an unusually loud chorus of complaints. Mr Goss's critics—most, though not all of them, Democrats—worry that he is too partisan for the job (he went on the floor of the House as recently as June to denounce John Kerry's intelligence record). They worry that he is too much part of the CIA old guard to back sweeping changes. And they worry, above all, that he is too pally with the White House to provide independent advice, a criticism that carries huge weight in the wake of the WMD fiasco.

Is there any merit in these complaints? There is no reason why partisan politicians cannot make successful CIA directors. George Bush senior moved to the CIA just two years after running the Republican National Committee, and is generally credited with doing a good job. Mr Goss is nobody's poodle. He has clashed with the White House on the reorganisation of the intelligence services (he believes a future intelligence tsar needs budgetary authority), and has called the CIA itself a “dysfunctional organisation”. The most serious worry is whether Mr Goss will be able to work closely with a potential President Kerry.

The debate over Mr Goss will be overshadowed by a bigger debate over the general shape of America's intelligence services. Last week Mr Bush endorsed a plan to create a national director of intelligence who will oversee all 15 intelligence agencies, a role played hitherto by the CIA director. If Mr Goss is confirmed, as he probably will be, he will inherit an agency whose reputation is already battered and whose powers are about to be much reduced.

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The electoral week

On the trail

Aug 12th 2004
From The Economist print edition

Er, doesn't make us feel better

“Our enemies are innovative and resourceful, and so are we. They never stop thinking about new ways to harm our country and our people, and neither do we.”

George Bush at the signing ceremony for a $417 billion defence-spending bill. Associated Press, August 5th

Window of opportunity

“My intention is to observe the convention as well as to report on [it].”

Ralph Nader writing to Ed Gillespie, chairman of the Republican National Committee, seeking journalistic accreditation to the Republican convention. Washington Post, August 8th

He said it

“You and I are in the same business. Is it hot air, by any chance?”

George Bush to Phil Derrow, CEO of the Ohio Transmission Corporation, a pumps and compressors company. Columbus Dispatch, August 6th

Now there's a shock

“Go ahead, yell it out. If I don't like the question, I'll reinvent it.”

George Bush at an Ohio rally. New York Times, August 9th

99% perspiration

“Own a part of American history; own the napkin containing sweat from Ambassador Alan Keyes's forehead. Due to federal election campaign laws, we might have to stop the bidding at $999.99 to avoid having to form a political fundraising committee.”

Sweat collected from the brow of Alan Keyes, Republican senatorial candidate in Illinois, for sale on eBay, August 10th

Diagnosis complete

“I think that the devil has got into Zell Miller, and he needs an exorcist.”

Ben Jones, a former Georgia congressman, challenging fellow Democrat (and Bush supporter) Senator Zell Miller to a debate. Roll Call, August 9th

What's really important

“The key issue is not to step in the yellow paint.”

Genevieve Christy, who is covering Brooklyn rooftops with blue construction tarpaulins in support of John Kerry. The tarps will be visible to Republican convention-goers flying into New York. New York Times, August 8th

Can't you be both?

“These women are not worried about closet space for their Manolo Blahniks. [They are concerned] about the family budget, education, health care...”

Ann Lewis, a Kerry adviser, on single women being mislabelled the “Sex and the City” vote. Milwaukee Journal- Sentinel, August 10th

Why bother?

“The really rich people figure out how to dodge taxes anyway.”

George Bush on why high taxes on the rich don't work. Daily Press, August 9th

How about them Yankees?

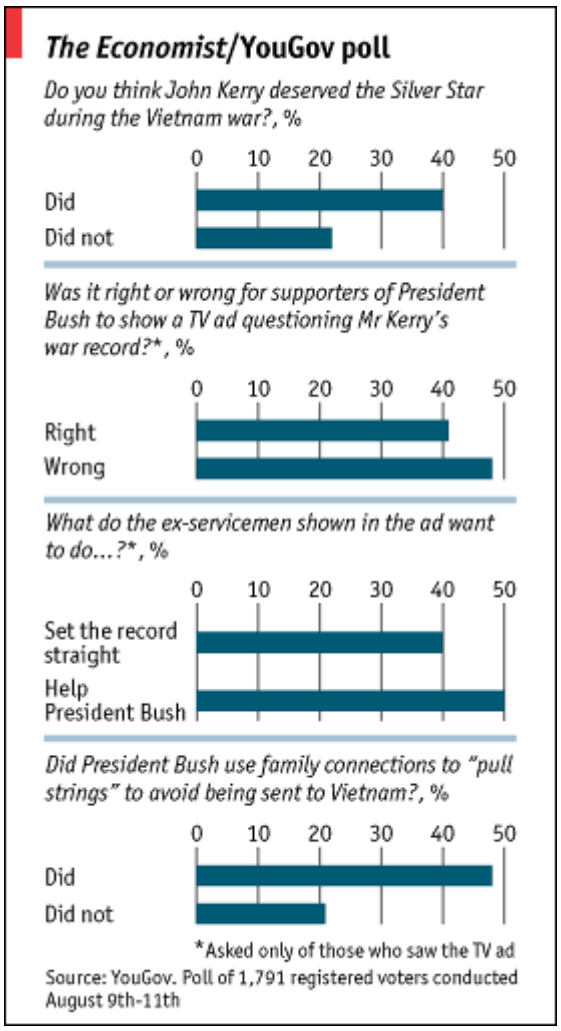
“That was while I was in Ohio. Now—I know—I'm in the state of Michigan. You got a great big M and a powerhouse of a team.”

John Kerry backtracking after being booed for cheering for the Ohio Buckeyes at a softball game in Michigan. New York Times, August 9th

Whatever it takes

“This is how I'm going to get some privacy on the bus.”

Teresa Heinz Kerry as she ate a Wisconsin delicacy: a sandwich of local cheese and raw onions. Washington Post, August 7th



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The Colorado Senate race

Beer today, gone tomorrow?

Aug 12th 2004 | DENVER
From The Economist print edition

The Republican candidate is weaker than he looks

“I DON'T need this job,” says Pete Coors of his bid to be Colorado's junior senator. “Trust me, I've already got the best job in America—chairman of a beer company.” So why did he spend four months and $400,000 of his own money (plus $2.2m of other people's) to defeat Bob Schaffer, a former three-term congressman, for the Republican nomination in the August 10th primary?

The answer has more to do with national than state politics. With the Senate divided between 51 Republicans, 48 Democrats and one independent, the fate of the Colorado seat now being vacated by Ben Nighthorse Campbell, a Democrat-turned-Republican, could determine control of the next Senate. Mr Campbell, citing health reasons, announced his departure in March. That left the Republicans scrambling to find not just a candidate, but one who could keep the seat.

So step forward in April the tall, rich, telegenic Pete Coors, oozing the kind of name-recognition that can only come from being featured in beer-ads. His experience of politics may be zero but, much more important, he is a moderate loyal to George Bush. By contrast, Mr Schaffer sits proudly on the ultra-conservative, Christian wing of the party, declining even to campaign on Sundays. The analysis of the Republican establishment (encouraged, it seems, by some in the White House) was simple enough: Mr Schaffer would be too extreme to appeal to Colorado's almost 1m independents, whose votes matter.

In other words, although the state Republican convention in June confirmed Mr Schaffer as the activists' favourite, it made sense that the establishment had already ditched him and persuaded Mr Coors to run. As Bill Owens, Colorado's Republican governor, explained: “I happen to think Pete Coors is a stronger candidate in November.” So, it seems, do most Republicans: in what had been supposed to be a neck-and-neck primary, Mr Coors ended up winning around 60% of the vote.

But can he win in November? His opponent will be Ken Salazar, Colorado's attorney-general for the past four years and an easy victor on Tuesday against Mike Miles in the Democratic primary. A Mason-Dixon poll of registered voters in June predicted that Mr Salazar, a 49-year-old whose Hispanic roots in America go back some 12 generations, would beat Mr Coors by 47% to 40%. Mr Salazar, like Mr Coors, has an ample war chest, besides appealing to the growing number of Latino voters. Besides being attorney-general, he is also a rancher and small-business owner, and his call to allow cheap drug imports from Canada goes down well in a state where the cost of medicine for elderly voters is becoming an important election issue.

The nastiness of the Coors-Schaffer conflict may also dismay voters regardless of their affiliation. Although Mr Schaffer has denied any involvement, Colorado Conservative Voters, a non-profit group headed by his political mentor, Bill Armstrong, a former senator, ran a series of TV ads accusing Mr Coors of wanting to lower the drinking age from 21 to 18, and claiming that the Coors company supports a “homosexual agenda” by giving health cover to the partners of gay employees.

The biggest problem, however, is that the affable Mr Coors has so far been worryingly unconvincing. In one debate with Mr Schaffer, he admitted not knowing that Paul Martin is premier of Canada (a surprising lapse, since Coors is currently merging with Canada's Molson). At a campaign rally in the small town of Salida, just two days before the primary, he proposed a consumption tax but seemed not to realise that it would be regressive. Arguably he has time to learn—and he has 35 years of real business experience behind him. But while Mr Coors learns, Mr Salazar will be underlining his every mistake.

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Rock, hip-hop and the election

Makin' it hot

Aug 12th 2004 | WASHINGTON, DC
From The Economist print edition

Bruce Springsteen and P. Diddy in search of votes

ON THE face of it, the Vote for Change tour, announced last week, is just a bunch of ageing rockers who have joined a few token Generation X-ers to promote left-leaning politics from the stage. In fact, this is a new rock activism. More than 20 artists will descend on nine swing states for a week of concerts and Bush-bashing in October, and all money raised will go to America Coming Together, a group working to defeat George Bush.

Other musicians are using their business know-how to get out the youth vote. Sean Combs, a hip-hop artist and record producer better known as P. Diddy, launched his “Citizen Change” campaign last month. Mr Combs wants to “make the voting process relevant and hot.” He intends to run ads on MTV and Black Entertainment Television that feature celebrities wearing his “Vote or Die” T-shirts, which he also plans to sell nationwide. He has even hired James Carville, a wild-eyed old Clinton hand, as a campaign adviser.

Russell Simmons, another hip-hop idol and fashion mogul, is using a well-tested direct-marketing approach. In the past year his group, the Hip-Hop Summit Action Network, has organised 24 “summits” in cities across the country. Fans go not to hear music, but to listen to hip-hop celebrities rap about politics. Admission is free, but voter registration is pushed. So far, the group has registered over 1m young people. On election day, it plans to send recorded phone messages from hip-hop stars to its members urging them to vote.

Will all this work? The Vote for Change tour—which includes Bruce Springsteen, James Taylor and Bonnie Raitt—is likely to appeal to the largely white and middle-aged swing voters in the battleground states it is visiting. Mr Springsteen in particular, with his populism, patriotism and anti-war rhetoric, is bound to go down well with voters who, polls show, are more blue-collar and more worried about the Iraq war than the average American.

Drives to get the young voting have a fighting chance as well, though the job is a tough one. Voting among Americans aged 18 to 24 has declined steadily since the 1972 election: in 2000, barely more than a third went to the polls, compared with some 70% of all registered voters. If the young turned out in greater numbers it would be a boon for Mr Kerry: they prefer him to Mr Bush by much wider margins than the general population. But Mr Combs and Mr Simmons deny any partisan intent. As Benjamin Chavis of the Hip-Hop Summit Action Network puts it, “We're creating hip-hop zealots for voting.” That doesn't sound a very Republican sentiment.

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Swing states: Iowa

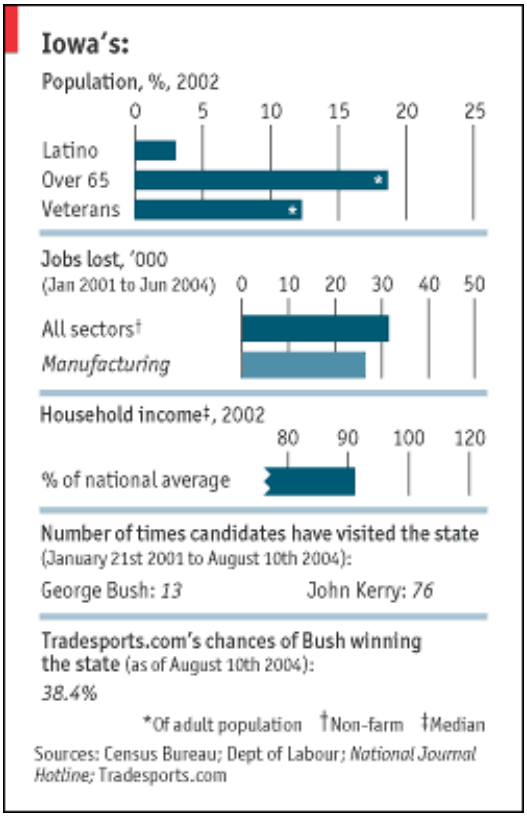
Down on the farm

Aug 12th 2004 | DAVENPORT, DUBUQUE AND IOWA CITY
From The Economist print edition

When natural conservatives are disenchanted, it may be bad news for George Bush

FOR most Americans, Herbert Hoover is a hard-hearted president who oversaw a massive economic collapse during the Great Depression. But the forgiving folk of Iowa, where he was born, prefer to think of him as the man who sent food aid to Europe, and they celebrated his 130th birthday last week with fireworks, cake and bands. As Timothy Walch, director of the Hoover presidential library, explains, “People here are very proud of him.”

This year, when Democratic leaders have been drawing unflattering parallels between Hoover and George Bush, how will Iowans react? Neither Mr Bush nor John Kerry is taking anything for granted. Iowa is considered one of the most contested states in the nation. Mr Bush lost to Al Gore in Iowa in 2000 by only 4,000 votes. Both he and Mr Kerry are now campaigning feverishly there: so feverishly that on August 4th they were both in Davenport, tying up the police so thoroughly that three banks were robbed.

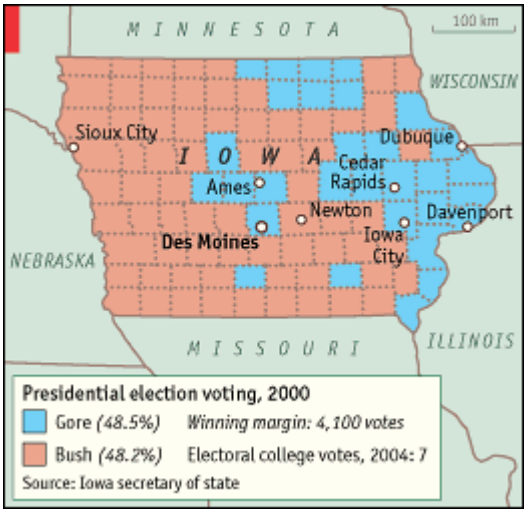


The latest poll of Iowa voters, conducted after the Democratic convention and released on August 5th, put Mr Kerry ahead of Mr Bush by 49% to 46%, with a slightly narrower edge in a three-way race including Ralph Nader, the independent. The poll found only 5% of Iowans undecided, suggesting that the party faithful have dug in at both ends of the spectrum. Independents, who make up a large chunk of the electorate, appear evenly divided.

On the surface, Iowa's political winds seem to be blowing Mr Kerry's way. The state has backed a Democrat for president in every election since 1988, after reliably supporting Republicans from Richard Nixon to Ronald Reagan. Mr Kerry owes a big debt to voters in the Iowa caucuses, who swung behind him at the 11th hour and sent Howard Dean packing. The governor, Tom Vilsack, is a clever, if dull, Democrat who, to many Iowans' surprise, was mooted as Mr Kerry's running-mate for a while. And its junior senator, Tom Harkin, is one of the Senate's most liberal members, campaigning hard both for farm subsidies and against child labour.

Yet there is a rightward pull in Iowa, too. The state's senior senator is Chuck Grassley, a big fan of tax cuts, who is expected to breeze to another term this November. “I don't know if Jesus Christ could take him out,” says Arthur Neu, a former Republican lieutenant-governor. (Many Iowans happily support both these “book-end” senators. After all, both have helped the state, especially its farmers: Mr Harkin backed NAFTA, and Mr Grassley has pushed for farm subsidies.) Four out of five congressmen are Republicans, though the 2001 redistricting, a refreshingly non-political process in Iowa, appeared to help the Democrats. Both houses of the state legislature are also dominated by Republicans, and Iowans tend to be conservative on social issues. Nearly two-thirds of them support the state's ban on gay marriage.

Where are the partisans to be found? The state's western third is rural and has long been Republican, although Democrats hope to do better in the fifth congressional district as the farm economy struggles. Central Iowa is more of a toss-up: moderate Republicans used to do pretty well in Des Moines and Ames, but those cities have gone Democratic in recent years. Iowa City, a university town, votes reliably Democratic in national elections. The state's eastern third, where much of the population is clustered, offers a mixed picture, much like the economy there. Al Gore did well in eastern Iowa in 2000.



Polls show that the economy is uppermost in many Iowans' minds, though their state has suffered less than others. In June the jobless rate was 4.3%, well below the national average and down from 4.5% a year earlier. Companies such as Deere & Co, a big farm-equipment maker, have started hiring again. The corridor between Ames and Des Moines, the state's largest city, has fared even better: as the national jobless rate hit 6.3% a year ago, the rate was only 3.9% in Des Moines, a growing centre for insurance and financial services.

But look closer, and the economic pain is evident. Maytag, a maker of home appliances, is cutting jobs in the state and is moving a big factory in neighbouring Illinois to Mexico. More than 1,500 union members went on strike at Maytag's headquarters in Newton last month. They are worried about cuts in pension benefits, higher medical costs and the possibility that the move to Mexico is part of a long-term shift away from the mid-west.

Perhaps the trickiest part of the economy for Mr Bush is the farms. Iowa has more than 97,000 of them. But the state that leads the nation in corn, soyabean, pork and egg production is seeing changes in its rural sector too: large agri-businesses are driving family farmers out of the pork business, leaving many unable to survive on grain farming alone. Increasingly, rural Iowans work farms part-time, commuting to jobs in the cities during the week, or throw in the towel completely. The farm population fell by 85,000 in the 1990s. Crop prices may be up, but farmers say the world market has not been kind to them.

This is bad news for Republicans, who rely on rural votes. Whether it is good news for Democrats is harder to tell. Yet Iowans, because of those caucuses, have had more chance to see Mr Kerry up close than other Americans have; they seemed to like what they saw last winter, and he must hope they still do.

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Lexington

The politics of tokenism

Aug 12th 2004
From The Economist print edition

The Republicans have made a bad mistake in pitting Alan Keyes against Barack Obama

THREE weeks ago in Boston, the Democrats witnessed the birth of a new black star in Barack Obama, their candidate for the open Senate seat in Illinois. Now the Republicans have conjured up a black star of their own to do battle with the self-described skinny guy with an odd name. Alan Keyes, talk-show host, holy-roller social conservative, Maryland resident and sometime presidential candidate, will take Mr Obama on.

The thinking behind this is beguiling in its simplicity: the Democrats have a black man who can give a rafter-raising speech, so we had better find a rafter-raising black man too. Beguiling, but stupid. Mr Keyes's Senate run will produce nothing but disaster—humiliation for Mr Keyes, more pie on the face of the already pie-covered Illinois Republican Party, and yet another setback for Republican efforts to woo minority voters.

Mr Keyes's problems start with his personality. The Republicans' new champion is the very opposite of cool. In 1996 he chained himself to the front door of a television station in Atlanta, Georgia, to protest against a decision to exclude him from a presidential debate (he was then mounting the first of his two bids for the presidency). His speeches can certainly be eloquent. But they can also be intemperate and plain weird, particularly on the subject of gays.

Mr Keyes's politics are of a piece with his personality. He is a genuine intellectual, a disciple of the great Allan Bloom, and has a PhD in political science from Harvard. But his intellectualism drives him to take absolutist positions on some of the most divisive subjects in American politics. He doesn't just call for a reduction of taxes; he calls for the complete abolition of the “slave” income tax. He doesn't just want to blur the line between church and state like George Bush; he argues that the division between church and state has no basis in the constitution. He doesn't just disagree with Mr Obama on abortion; he castigates him for holding “the slaveholder's position” on the subject.

This sort of absolutism doesn't go down well anywhere in America outside an eccentric fringe. But it goes down particularly badly in the meat-and-potatoes mid-west, where people expect politicians to solve real problems—as the Daleys have done so spectacularly in Chicago, perhaps America's best-run city—rather than waffle on about the meaning of the constitution. The Republicans who have flourished in the region have been middle-of-the-road pragmatists such as Jim Edgar and James Thompson, both former governors of Illinois.

This is hardly an auspicious start. But Mr Keyes brings two further disadvantages to his late-term Senate bid. The first is the charge of “carpetbagging”. Illinois is the sort of state where politicians are expected to cultivate their constituencies for years, and where people reminisce about the Cook County political machine's legendary operating style in Chicago in the 1960s. The Democrats are cheerfully claiming that the Republicans are so bereft of talent in a state of 12.5m people that they have to go to Maryland to find any. And they are gleefully reminding everyone of Mr Keyes's pompous scolding of Hillary Clinton, on Fox News in 2000, for running for the Senate in “a state she doesn't even live in”.

The Keyes candidacy also smacks of tokenism. The candidate routinely denounces affirmative action as a form of racial discrimination. But what other than racial discrimination can explain the Illinois Republican Party's decision to shortlist two blacks for the Illinois slot—and eventually to choose Mr Keyes? He brings no powerful backers or deep pockets, and was thrashed in his two runs for the Senate in Maryland.

Desperate measures

The Illinois Republicans are not just guilty of tokenism. They are guilty of last-minute scraping-the-bottom-of-the-barrel tokenism. The local party has been undergoing a sort of collective mental breakdown ever since Jack Ryan's Senate candidacy collapsed in June over a sordid sex scandal. The party tried a laundry-list of candidates, including two former Illinois governors, two state senators, several wealthy businessmen, a former football coach and, according to Dennis Hastert, “a 70-year-old guy who was a great farm broadcaster in Illinois”, before turning at last to Mr Keyes.

To make matters even worse for the Republicans, Mr Keyes's numerous defects as a candidate are only magnified by the comparison with Mr Obama. Mr Obama has spent almost 20 years in Illinois—seven as a state senator—and is married to a woman from the South Side of Chicago. He won an impressive 53% of the Democratic primary vote against six strong opponents. He is optimistic where Mr Keyes preaches Sodom and Gomorrah, and moderate where Mr Keyes is intemperate. He is also a rising national star, with unrivalled support from the national party, while Mr Keyes is a serial failure.

The Republicans' fatal mistake was to think that the best way to counter a black man was with another black man. The point about Mr Obama—as the Republicans might have realised if they had paid greater attention to his speech in Boston—is that he is a post-racial candidate. Mr Obama is the son of a black man from Kenya and a white woman from Kansas who was brought up by his white mother and grandparents in Hawaii and South-East Asia. He appeals just as strongly to white suburban voters as he does to blacks.

Over the past few years, the Republicans have made serious attempts to court blacks. Mr Bush gave blacks two of the most senior positions in his administration, secretary of state and national security adviser. But the Illinois Republican Party's decision to choose Alan Keyes is not a serious attempt at outreach. It is a ridiculous parody of it—and it will result in a crushing defeat this November.

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Correction: Indianapolis

Aug 12th 2004
From The Economist print edition

In our swing-state piece on Florida ("Enter at your Peril"), we inadvertently positioned Indianapolis "on the Great Lakes". Several residents of that fair city have welcomed this move, but, alas, they remain 150 miles away. We still stand by our assertion that Indianapolis is closer by road than Key West from Pensacola.

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Venezuela's referendum

Judging the Bolivarian Revolution

Aug 12th 2004 | CARACAS
From The Economist print edition

Reuters

A polarised and declining country prepares to vote on whether or not to recall its president, Hugo Chávez

IN THE first such vote anywhere, on Sunday August 15th, Venezuela's 14m voters will be asked if they want to get rid of their elected president in the middle of his term. If President Hugo Chávez, a controversial former lieutenant-colonel, survives this recall referendum, it will be an endorsement of his "Bolivarian Revolution", named after Simón Bolívar, the Venezuelan-born hero of South American independence. Should he lose, Venezuela faces an early election and uncharted ground. Either way, the outcome will be contentious in Venezuela—and will echo around Latin America for years to come.

A strongman who attempted a coup against a democratic government in 1992, Mr Chávez looks in many ways like a throwback to the Latin America of the 1970s. But he inspires anti-globalisers and radical movements across the region and beyond. Cuba's Fidel Castro, whose country depends for a third of its energy needs on what is, in effect, a donation of Venezuelan oil, will watch the referendum result particularly closely.

If Mr Chávez's "revolution" is a potpourri of populism and leftism, his opponents are an even more heterogeneous bunch. They range from free-market conservatives to ex-guerrillas. They include the remnants of the two traditional parties, one social democratic and the other Christian democratic, that ruled Venezuela from 1958 until the mid-1990s, as well as assorted non-party pressure-groups.

The opposition has no single leader but rivals galore, and many of its supporters distrust all of them. The only thing they share is a loathing of Mr Chávez, whom they accuse of ruling in an autocratic, sectarian way and of destroying an already declining economy. For the opposition, the referendum is a last chance to save Venezuelan democracy from a would-be tyrant. Government supporters counter that their opponents simply want to turn the clock back, to a pseudo-democracy run by corrupt cliques in the service of a cold-hearted "oligarchy".

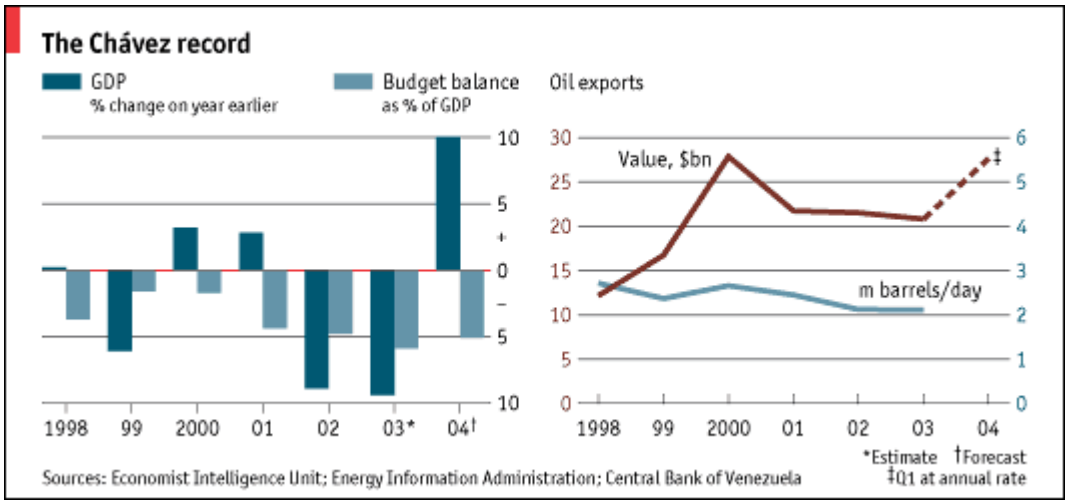
Whereas the opposition's campaign has been oddly flat, Mr Chávez is a shrewd campaigner. Polls now suggest that the result could go either way: almost all of Venezuela's shrinking middle-class is hostile to the president, but some 60% of the poor support him. It may depend in part on which side is better at getting out its vote. To recall Mr Chávez, the opposition needs a minimum of 3.8m votes, as well as a majority of those cast.

The outcome may also depend on the National Electoral Council (CNE). The council's five-strong board splits three-two in favour of the government on every controversial decision. It has turned what should have been a straightforward process into a labyrinth of bureaucratic complexity. When the opposition

handed in 3.4m signatures for the referendum, the CNE ruled out 40% of these, forcing a partial repeat of the exercise. Asked if he was worried there might be more tricks on August 15th, a foreign diplomat said: “Am I worried? These people stole 1.2m signatures! You bet I'm worried.”

It will be miraculous if there are no technical hitches. The CNE has insisted not only on untried, touch-screen voting machines but on electronic fingerprinting to eliminate multiple voting. Yet any postponement would have consequences: if the vote were held after August 19th, and if Mr Chávez were defeated, his appointed vice-president would serve out his term.

Mr Chávez was first elected in 1998 (and again, for a six-year term, in 2000 under a new constitution). Under his rule, real incomes have fallen to their level of the 1950s; unemployment stands, officially, at 16%. The economy is growing strongly right now, thanks to high oil prices, but this follows a severe recession: the country has yet to recover the output lost in a two-month general strike in 2002-03. Despite the oil-price surge, the government is deeply in the red (see chart).



Magnanimous sorcery

“It would be suicidal”, wrote José Ignacio Cabrujas, a playwright, “for a presidential candidate in Venezuela not to promise us paradise, because the state has nothing to do with reality. The state is a magnanimous sorcerer.” The main reason is oil: the largest deposits outside the Middle East are the source of 80% of the country's export earnings. From the 1950s, oil propelled a backward agricultural society into jangling modernity, convincing most Venezuelans they were heirs to limitless wealth. Oil brought political stability and some social progress—until the ratio of petrodollars to people turned against the country in the 1980s.

Like most of his predecessors, Mr Chávez has only paid lip-service to the need to end dependency on oil. Instead, he has diverted the extra cash from high oil prices into social programmes that even supporters acknowledge amount to a “parallel state”. Money is spent not according to the country's development needs, but to keep the president in power.

The results are everywhere to be seen. Take the 45-minute cab ride from the airport to the centre of Caracas, the capital. You have avoided the pirate cabs that can deliver you into the hands of gangs who will strip you of your cash and valuables. The toll-booth need not detain you: the private firm that ran it has given up charging the pittance the government allowed. Just pray the cab does not break down: the National Guard lacks troops to protect you from the bandits who infest the area. On no account arrive at night: thieves steal the street lighting faster than the municipal authorities can replace it, rendering the journey even more perilous.

The coastal mountain range through which you pass still bears the scars of catastrophic landslides that killed thousands and left many more homeless in 1999. Mr Chávez's response was to bring forward a pet scheme to resettle large numbers of slum-dwellers in the mostly empty interior. Predictably, lack of jobs, entertainment and prospects quickly drove most of the settlers back to the *ranchos*—precarious, breeze-block houses that cling to the hills around the capital.

At night, their lights twinkle invitingly. But life in the *ranchos* is tough, and often short. Since Mr Chávez

took power, the annual murder rate has risen from 4,500 to 11,000. Many die at the hands of the police: a “shoot-to-kill” policy has become the norm because the courts, whose reform was supposed to be a priority of the “revolution”, are too corrupt and inefficient to halt the crime wave. Mr Chávez, who is garrulous about empowering the poor, has said little about the war in the slums. His main concern is to seize control of the police forces of opposition mayors, lest they should be used against him.

As you emerge from the last tunnel into the valley of Caracas, a large sign, mounted on an apartment block, encourages you to say No to tax evasion. This is the internal revenue service's none-too-subtle invitation, at taxpayers' expense, to vote against recalling Mr Chávez. Public buildings, staff and vehicles have all been illegally pressed into campaign service. The president makes liberal use of his right to force private radio and television to broadcast his interminable speeches live, while the government majority on the National Electoral Council nit-picks over “balance” in the opposition media. Even the armed forces have campaigned for a No. Those of their members found to have signed the referendum petition were disciplined and in many cases expelled.

AP

A lot for the voters to chew on

It has taken the opposition nearly two years to force a vote. Before that, it tried less democratic tactics. In April, 2002, after a march on the presidential palace ended with 21 dead, Mr Chávez was briefly ousted by the army. But within 48 hours he was back. Eight months later came the general strike, which also failed to shift him.

Both episodes left the regime stronger. “Chávez has gradually achieved portions of real power, but that's because of the blunders of the opposition,” says Samuel Moncada, a historian and member of the president's campaign team. After the coup, Mr Chávez purged the armed forces; during the strike, which he later admitted he had deliberately provoked, he took direct control of the state oil firm.

That the two sides have since edged towards a vote to settle their differences owes much to outside pressure—specifically, the mediation of the Organisation of American States and the Carter Centre (of Jimmy Carter, a former American president). Many credit them with persuading Mr Chávez to accept the referendum.

For the referendum, observers from these two bodies have agreed to stringent restrictions imposed by the electoral council—including a ban on talking to the press. But their eventual verdict on the fairness of the process will be the litmus test for foreign governments. The opposition's own electoral advisory unit, an NGO called Súmate, has also come under pressure. Several of its leaders face treason charges for accepting donations from the United States. But it, too, continues to operate.

The risk of bloodshed

Should the result be close and disputed, Venezuela risks the large-scale bloodshed it has so far avoided. Both sides have their armed extremists—and the army itself is divided. If the opposition wins, Mr Chávez is unlikely to go quietly. He says that he would stand in a subsequent election. He might win again: the opposition would have just 30 days to choose and promote its candidate. He has tightened his grip on other branches of government. He has pushed through a law that expands the Supreme Court from 20 to 32 justices. He is now packing the court with allies.

And if Mr Chávez wins the referendum, would he end five decades of Venezuelan democracy? There are some in the *chavista* camp who scorn representative democracy: the president himself prefers a “participatory” version. But Venezuela is not the Cuba of the 1960s, despite Mr Chávez's friendship with Mr Castro. At least a facade of representative democracy, relative freedom of expression and a mixed economy are likely to remain.

Multinationals, especially oil companies and banks, would still be welcomed by Mr Chávez; indeed, he increasingly depends upon them. But the local private sector would continue to wither. While the oil price remains high, Mr Chávez would get away with that. If and when it falls, Venezuela faces an appalling hangover.

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The Latinobarómetro poll

Democracy's low-level equilibrium

Aug 12th 2004
From The Economist print edition

Latin Americans believe their democracies benefit a privileged few, not the many—but they don't want a return to dictatorship

CONTRARY to much punditry suggesting that the region risks a return to authoritarianism, roughly half of Latin Americans continue to support democracy, though few think it is working well. A much larger majority backs the market economy. Politicians are slightly less unpopular than of late. But worries about unemployment, poverty, corruption and crime test faith in democracy. Many Latin Americans would sacrifice some freedoms for order and greater prosperity. And their view of the United States is much less favourable than in the mid-1990s. These are some of the conclusions of the latest Latinobarómetro poll of political and social attitudes in 18 Latin American countries published exclusively by *The Economist*.

Latinobarómetro, a Chilean organisation, has carried out similar surveys each year since the mid-1990s, so the poll captures shifts in opinion in the region. This year's survey shows broad stability in attitudes, despite an improving economy (the region should see economic growth of 4.5% or so this year, the highest since 1997). That may be because of the lag before growth is reflected in higher incomes or more jobs. Or it may be because of deeper-rooted failures in democratic performance.

A lukewarm endorsement

1

Which of the following statements do you agree with most? %

	Democracy is preferable to any other kind of government					In certain circumstances an authoritarian government can be preferable to a democratic one				
	1996	2002	2003	2004	*Change since 1996*	1996	2002	2003	2004	*Change since 1996*
Venezuela	62	75	67	74	*12*	19	12	15	11	*-8*
Honduras	42	57	55	46	*4*	14	14	13	11	*-3*
Chile	54	50	51	57	*3*	19	14	14	14	*-5*
Mexico	53	63	53	53	*0*	23	20	14	14	*-9*
Uruguay	80	78	78	78	*-2*	9	10	9	7	*-2*
Ecuador	52	49	46	46	*-6*	18	18	34	30	*12*
El Salvador	56	40	45	50	*-6*	12	16	11	10	*-2*
Argentina	71	65	68	64	*-7*	15	17	18	20	*5*
Brazil	50	37	35	41	*-9*	24	15	19	18	*-6*
Colombia	60	39	46	46	*-9*	20	11	14	12	*-8*
Panama	75	55	51	64	*-11*	10	16	18	8	*-2*
Costa Rica	80	77	77	67	*-13*	7	8	7	7	*0*
Guatemala	51	45	33	35	*-16*	21	12	10	11	*-10*
Peru	63	57	52	45	*-18*	13	16	20	20	*7*
Bolivia	64	56	50	45	*-19*	17	20	22	19	*2*
Nicaragua	59	63	51	39	*-20*	14	12	10	10	*-4*
Paraguay	59	45	40	39	*-20*	26	38	44	39	*13*
Dominican Republic	na	75	na	65	*na*	na	13	na	11	*na*

Source: Latinobarómetro

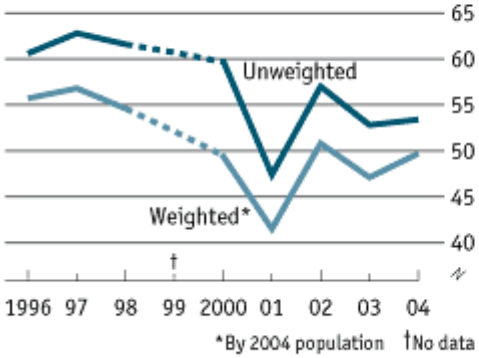
Ranked by increase in support for democracy since 1996. Other answers not shown

Support for democracy has edged up since last year (see charts 1 and 2, right and below). But in most countries it remains lower than in 1996, and in a dozen greatly so. The past year has seen sharp falls in support for democracy in Peru and three Central American countries (Costa Rica, Honduras and Nicaragua). Only in Paraguay does support for authoritarianism rival that for democracy; it is relatively high, too, in Ecuador. Not coincidentally, respondents in those countries are, along with Peruvians, the least satisfied with the way their democracies work (chart 5).

Weighing votes

2

Democracy is preferable to any other other kind of government, % agreeing, in all countries



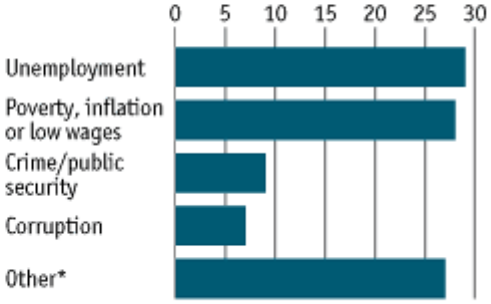
Sources: Latinobarómetro; EIU

Economic headaches

3

What do you consider to be the country's most important problem? % of respondents

2004, unweighted average of all countries



*Includes political problems, terrorism, education, health and others

Source: Latinobarómetro

On the brighter side, there has been a significant rise in backing for democracy since last year in Brazil, Chile and Venezuela, as well as in two Central American countries with newly elected presidents (El

Salvador and Panama). Venezuelans are committed democrats despite—or perhaps because of—the political conflict their country suffers. The poll suggests that Venezuela is evenly divided between supporters and opponents of President Hugo Chávez.

A reviving economy and a less powerful army may be easing Chile towards consolidated democracy. The advent of President Luiz Inácio Lula da Silva, a former trade-union leader of humble origins, seems to have increased support for democracy in Brazil. The poll suggests that the unpopularity of Alejandro Toledo has discredited Peru's restored democracy and may have generated nostalgia for the strongman rule of Alberto Fujimori. As for the region's two firmly consolidated democracies, Uruguay remains so but Costa Ricans are having doubts.

Attitudes and ambiguities 4

% of respondents who:

	Wouldn't mind a non-democratic government if it solved economic problems	Think the government benefits a powerful few rather than everyone	Prefer an orderly society though some freedoms may be limited	Under no circumstances would support a military government	Think only a democratic system can bring development
Paraguay	75	78	65	41	48
Honduras	70	66	69	47	75
Nicaragua	70	74	49	70	76
Mexico	67	75	48	60	75
Colombia	64	59	43	58	67
Peru	64	85	48	47	66
Dominican Rep.	62	85	63	74	76
Guatemala	57	64	54	54	60
El Salvador	56	63	54	48	67
Panama	56	67	42	77	80
Brazil	54	65	53	56	68
Bolivia	49	76	38	67	70
Ecuador	49	77	36	69	67
Venezuela	48	51	33	71	86
Argentina	46	71	50	64	79
Chile	45	70	45	64	67
Costa Rica	42	68	56	89	79
Uruguay	33	78	32	72	84
Latin America*	**55**	**71**	**48**	**63**	**72**

Source: Latinobarómetro *Unweighted

Underlying attitudes towards democracy in the region are complex and not without contradiction (see chart 4, right). Some 55% (up from 50% in 2002) of respondents say they “wouldn't mind a non-democratic government if it could solve the economic problems.” The 2002 figure was seized on—and magnified by dropping “don't knows”—by the United Nations Development Programme in a gloomy recent report lamenting the failure to develop a so-called “democracy of citizens” in Latin America. The fact that 71% of respondents think that their country “is governed for the benefit of a few powerful interests” rather than “the good of everyone” gives some support to that view—and may reflect popular perceptions of the region's abiding inequalities. But on the other hand, in this year's survey 63% say they would never support a military government and 72% believe that only democracy can bring development.

All this suggests that elected strongmen, such as Mr Chávez or Mr Fujimori, still have a constituency in some countries. Some 48% of respondents say they prefer order to liberty. That may be a sign of an authoritarian political culture—or simply a response to crime and disorder.

Pained in Peru

5

How satisfied are you with the way democracy works in your country? % responding "not very satisfied" and "not at all satisfied"

Source: Latinobarómetro

Pro-marketeers

6

Is a market economy the only system which can develop your country? % of respondents*

2004, unweighted average of all countries

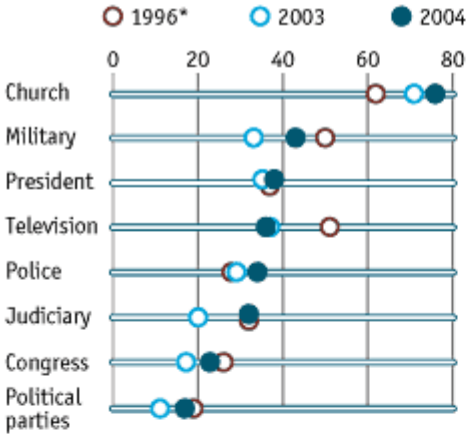
Source: Latinobarómetro *Other answers not shown

An improving trend

7

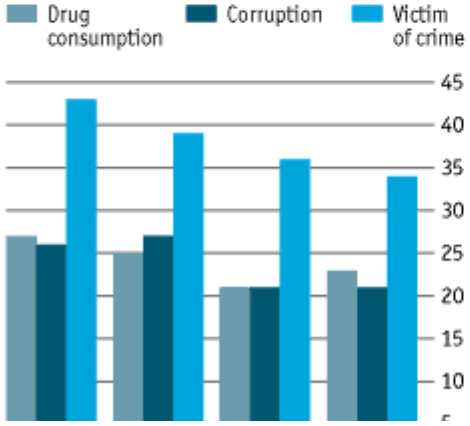
For the groups, institutions or persons in this list, can you tell me how much confidence you have in each? % responding "a lot" and "some"

unweighted average of all countries



Have you or someone in your family been a victim of crime, or known of an act of corruption or of drug consumption in the past 12 months? % responding "yes"

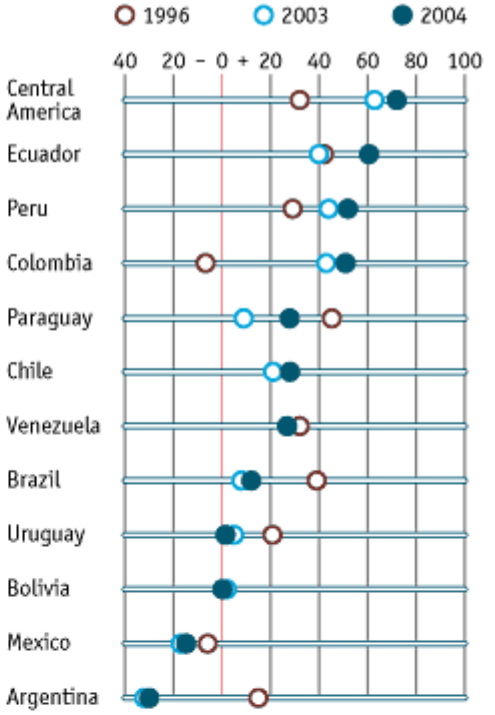
unweighted average of all countries



Cool to Uncle Sam

8

What is your opinion of the United States? net*, %



**"Very good" and "good" minus "bad" and "very bad"

Source: Latinobarómetro

For democrats, there are glimmers of hope. The poll suggests that crime may be starting to fall, and that trust in the region's discredited political institutions has edged up again (chart 7, right). Contrary to claims of a big shift to the left, a clear majority favour the market economy (chart 6, right). But Central America and some Andean countries apart, the region remains alienated from the United States (chart 8, right). The anti-Americanism that surged over the war in Iraq has not yet subsided.

Latinobarómetro is a non-profit organisation based in Santiago, Chile, which has carried out regular surveys of opinions, attitudes and values in Latin America since 1995. The poll was taken by local opinion-research companies in 18 Latin American countries, and involved 19,605 interviews in May and June 2004. The margin of error was 2.8-4.1%. Central America in the charts refers to Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama. Further details from www.latinobarometro.org

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Sectarian tension in India

It still hurts

Aug 12th 2004 | AHMEDABAD
From The Economist print edition

Reuters

Truth and justice, like reconciliation, prove elusive in Gujarat

Get article background

THE scar left by the pogrom directed at the Muslim minority in the Indian state of Gujarat in February and March 2002 has yet to heal. That is partly because not a single murderer has been convicted, although perhaps 2,000 people died. The state government is under pressure from local activists, human-rights groups and India's staunchly interventionist Supreme Court to see that justice is at last done. But it continues to act less like a scourge of illegal violence than its sponsor.

This week, the Supreme Court rebuked the state government's prosecutor for his failure to secure the arrest of ten of 21 Hindus accused in an infamous court case arising from the violence: the burning to death of 14 Muslims in a bakery. The accused have already been acquitted once, after witnesses withdrew their evidence. Prosecutors appealed, but in April the Supreme Court ruled that a fair retrial was impossible in Gujarat and moved the case to the neighbouring state of Maharashtra.

The state government may have reasons for subverting the judicial process. Led by Narendra Modi, a charismatic but demagogic hardliner from the Hindu-Nationalist Bharatiya Janata Party (BJP), it is accused of having done little to prevent the slaughter. Many think it was complicit.

The government has, however, acted against those accused of the horrific “crime” that sparked the carnage. Using the controversial Prevention of Terrorism Act (POTA), it has charged 123 Muslims and detained nearly 100 over a fire in a train compartment, which took place in the town of Godhra. Of the 58 people asphyxiated or burned to death, many were Hindu devotees, returning from a gathering at the contested site of a temple in the holy town of Ayodhya. A Muslim mob was alleged to have doused the carriage with petrol, ignited it and locked the doors.

Revenge for this massacre was the BJP's explanation for the slaughter that followed. Even Atal Behari Vajpayee, the BJP's leader and, at the time, prime minister, seen as a moderate, asked “Who lit the fire first?”. That foreigners and the liberal English-language press in Delhi largely ignored the Godhra massacre, concentrating on the killings of Muslims—some 9-10% of Gujarat's 50m population—heightened the sense of grievance. It helped Mr Modi lead the BJP to a landslide victory in state elections in December 2002.

Yet forensic analysis and eyewitnesses have cast doubt on the government's theory of a preplanned arson attack. A hideous accident seems more likely. Last month, the railway minister in the government that came to power in Delhi in May, Laloo Prasad Yadav, announced an enquiry into the Godhra incident.

Mr Modi's critics were encouraged by the BJP's surprise defeat in the general elections and by its relatively poor showing in Gujarat itself, which they like to interpret as a repudiation of the BJP's communal politics. Local human-rights and social-welfare groups have had a renewed burst of energy, compiling lists of demands of the new central government led by the Congress party. The government this week agreed to one, revoking POTA, but not, as petitioners had hoped, with retrospective effect.

Harsh Mander, an activist and writer, says that if the government fails to do more it risks “missing a moment in history”, when it has a chance “to make amends for past injustices”. It may already be too late, however, to rebuild trust between Hindus and Muslims. The killing accelerated their segregation—a process, says Hanif Lakdawala, a prominent social worker, that is now 90% complete.

An example is the expanding ghetto behind the Bombay Hotel in Ahmedabad, Gujarat's main city. A warren of crude redbrick houses—much of it, during the present monsoon, under water—it is now home to some 4,000 Muslim families, mostly fugitives from the 2002 violence.

One of them, Yusuf, drives an autorickshaw, a three-wheel taxi. He is still too scared to return to his old home. Just last month, depositing passengers in a Hindu district, he was recognised as a Muslim and locals threw stones at him. Two weeks ago, fresh clashes erupted in Veraval, 320km (200 miles) south-west of Ahmedabad. But in the Bombay Hotel settlement, surrounded by 4km in either direction of exclusively Muslim slum, he feels safe. Muslims complain of a tacit economic boycott; employers put job applications bearing Muslim names to one side. In response, conservative Muslim organisations are gaining influence.

Communal relations in Gujarat raise concerns far beyond the state. This month, India's film censors refused a certificate to “Final Solution”, a documentary on the 2002 pogrom and its aftermath, which has won prizes at film festivals from Berlin to Zanzibar. The censors accused the film of promoting “communal disharmony”. Its maker, Rakesh Sharma, says they have become politically partisan.

The BJP itself has been in some disarray since its election defeat. Some members partly blame the setback on the stigma of the Gujarat pogrom. But the BJP's more fervent supporters—who idolise Mr Modi—accuse the party of having compromised its core “Hindu” principles to court moderate support. In Gujarat itself, Mr Modi has survived, for now, a rebellion from within the local party. His job was in jeopardy not because of his hardline views but because his high-handed manner has alienated many state legislators. For this reason, many in Ahmedabad still expect him to go later this year. The debate in the BJP over how to assess his rule, however, will go on much longer. So, sadly, will its effects on Gujarat's communal relations.

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Indonesia's security forces

Above the law

Aug 12th 2004 | JAKARTA
From The Economist print edition

Getting away with murder

Get article background

IT IS about to stage the second half of an election that promises to cement its young democracy into place. But in some ways, Indonesia still shows little sign of bringing its armed forces to heel. Barring a volte face from the Supreme Court, a tribunal prosecuting alleged human-rights abuses carried out during East Timor's referendum on sovereignty in 1999 has now ended the predictable way, with no soldiers or police being punished. Of the 16 members of the Indonesian security forces and two East Timorese civilians who were indicted, all the Indonesians have either been acquitted or freed on appeal (the quashing of the convictions of the final four was announced on August 6th). The two East Timorese have received minimal sentences: one got three years, the other, after appeal, five.

Reuters

Nothing to fear from the law

As far as Indonesia's government is concerned, the matter should now be closed. Many outside Indonesia are unlikely to concur. During and after the referendum, in which the former Portuguese colony voted to obtain independence from Indonesia, about 1,500 civilians were killed, many more forced to flee and much of the infrastructure destroyed.

The inadequacy of the tribunal in Indonesia is highlighted by the contrast with a parallel investigation being conducted in East Timor itself by the Serious Crimes Unit set up by the United Nations. This body has indicted some 375 people and secured more than 50 convictions. Most of those convicted are militiamen who say they were acting under the orders of the Indonesian armed forces. About 280 indictees remain at large in Indonesia. They include the Indonesian commander at the time, General Wiranto, for whom the unit has issued an arrest warrant.

After the announcement of the appeal decision in Jakarta, human-rights groups renewed their demands for the creation of an international tribunal. So far, however, America is the only major power to have stated publicly its desire to see “a credible level of justice”. East Timor itself, eager to maintain healthy relations with its vast and powerful neighbour, opposes the idea of an international tribunal. Indeed, the government has refused to forward General Wiranto's arrest warrant to Interpol.

The apparent impossibility of holding Indonesia's security forces to account may eventually create frustration. This week, the head of special forces was cleared over shooting demonstrators in 1984. The

former head of the Jakarta military police was also cleared of failing to prevent the torture of 170 civilian prisoners, following a protest the same year. The judges declared the beatings were only “ordinary” rights abuses.

Attention will turn next to the government's response to a report by the national human-rights commission, leaked this week. It alleges that members of the security forces perpetrated gross human-rights abuses in 2001 and 2003 in the eastern province of Papua. The situation in Aceh, on the northern tip of Sumatra, is equally troubling. Despite the lifting of martial law in May, after a year of fighting against separatists, military operations continue. In recent weeks, the army has reported a big rise in the death toll. It claims that the victims are insurgents, but independent observers say this is hard to verify.

Meanwhile, the armed forces are pushing for a military bill to be rushed through parliament. In its present form, critics say, the proposed bill will make it harder to turn the army into a truly professional force after a long history of involvement in politics. The country's generals have won justified praise for remaining neutral during this year's elections. You might think they could show a greater willingness to contemplate reform when their interests are being so well protected elsewhere.

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Australia

In the line of fire

Aug 12th 2004 | SYDNEY
From The Economist print edition

John Howard is facing attacks from unexpected corners

Get article background

WITH an election looming, John Howard, Australia's prime minister, is under siege over an issue on which "Honest John" has always claimed the high moral ground: truth. As Mr Howard mulled a date for the election, at which he will be seeking a fourth term for his conservative coalition government, 43 of Australia's former defence and diplomatic chiefs attacked him for what they described as his "deception" of the Australian people.

Their charge, in a statement on August 8th, had to do with "false assumptions" behind Mr Howard's commitment of Australian troops to the Iraq war—about 850 of them are still there. But the luminaries delivered a wider blitz on the Howard government's foreign policy: its "unquestioning support" for the Bush administration, they said, had given Australia a higher profile as a terrorist target.

Mr Howard hit back by suggesting that his critics had passed their best-by dates. All had retired before the terrorist attacks of September 11th 2001, he said; they had to understand that "we are living in a new world". Two coalition MPs were even more condescending. One described the critics as "disgruntled old men", another as "doddering, daiquiri diplomats".

But they cannot be so easily dismissed. They include a former chief of the Australian defence force, two former navy chiefs and a former head of the defence department. Another of the signatories, Richard Woolcott, a former head of the foreign-affairs department and a former ambassador, has made three post-September 11th visits to Washington for talks with administration officials. "The issue is not our ages," says Mr Woolcott, "but Mr Howard's arrogant way of running the government."

Mr Howard's assertion last year that Australia had moved on from the Iraq war may turn out to have been wishful thinking. True, its troops have suffered no casualties. A report last month on Australia's intelligence agencies, which Mr Howard commissioned, also cleared his government of charges of manipulating intelligence. But the murkiness surrounding Australia's involvement suggests the issue is likely to damage the government in the election campaign.

The prime minister's credibility on Iraq and other issues has also brought pressure from a more unsettling front. John Valder, a former president of the conservative Liberal Party, which Mr Howard leads, and one of the city's most well-connected fundraisers, has launched a campaign to defeat Mr Howard in his Sydney electorate of Bennelong.

Mr Valder is not standing himself, but is urging voters in the Liberal Party's heartland to support other Bennelong candidates. They include Andrew Wilkie, a former Canberra intelligence official who resigned in protest over the government's handling of pre-Iraq war intelligence and who is standing for the Greens. Mr Valder wants the Liberal Party to stay in power, but without Mr Howard as leader. "There's been a creeping disease of autocratic leadership," he says. "The Howard government has become grubby."

Wiping out Mr Howard's comfortable margin in his own seat will be a tall order. But Mr Valder promises to be a lightning rod for other dissident Liberals, in a campaign where the coalition will be running neck-and-neck with the opposition Labor Party. Mr Howard is said to believe he will fare best if he calls an election before the Americans choose a president in November. Maybe.

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Japan's workforce

Employed, but still not happy

Aug 12th 2004 | TOKYO
From The Economist print edition

Is the tide about to turn for Japan's dissatisfied young workers?

MAKIKO FUJINAMI is a rarity in Japan these days: a young worker with a good job who is happy to keep doing it. But as a career counsellor for Recruit Ablic, Japan's biggest employment agency, she meets many customers who are not so fortunate. Changing attitudes and a decade of economic stagnation have taken a toll on some of the country's brightest and hardest-working young people. The days when corporate Japan was praised for its ability to train, motivate and retain young workers are over.

Unlike Japan's “freeters”—who flit from one part-time job to another—the young workers who stream through Miss Fujinami's office tend to hold demanding full-time positions and are eager to make the most of their education. For the past few years, legions of them have been toiling away in jobs they dislike, with little hope of a decent reward.

AP

Looking for the perfect job

One indicator of their plight is the recent focus by Recruit and other agencies on *dai ni shinsotsu*, or “second-time graduates”—once an unthinkable phenomenon in Japan. These are workers who have finished university in the past three years, landed in the “wrong” job and are now looking desperately to swap it for a better one. The trouble is that the “right” job is not only hard to find, but difficult for many confused youngsters to define.

Hiroshi Akiba, who heads BrushUp Japan, another employment agency, contrasts his young Japanese job-seekers with their counterparts in China, who are eager to finish school and enter the workforce. In Japan, by contrast, “they don't want to go out there—the world is too confusing.”

At Recruit, the first order of business with *dai ni shinsotsu* is to tackle some of their anxieties. Compared with older job-seekers, the initial counselling session is much longer, typically two hours, much of which the young workers spend unburdening themselves. Many of them, says Miss Fujinami, have few friends they can talk to about their worries and place little trust in their would-be mentors.

Many of Recruit's young customers say, half-jokingly, that they would like to do something creative if a job opened up. But most of the *dai ni shinsotsu* nonetheless clearly believe that they are better off looking for a conventional job upgrade. When the term “freeter” was coined in 1987—when the economic bubble was still inflating—it referred to artistic types who were willing to make sacrifices to pursue their passions. In the 1990s, however, the term was expanded to include a raft of other underemployed youngsters—from the unfortunate to the indolent—whose career prospects are dwindling rapidly as they reach their late-twenties.

Many discontented new graduates have settled for sales positions, the only new jobs that big and mid-sized firms were willing to create in a moribund economy. Those who took them have discovered that, besides being decidedly uncool, sales jobs are a dead end. And they complain that they are badly underpaid in comparison to their older counterparts.

The most coveted jobs, by contrast, are in consulting, marketing, finance and human resources, although such jobs are still in short supply. And unfortunately, says Masafumi Suganuma, Miss Fujinami's manager at Recruit, Japan's employers have other ideas. Whereas 70% of young workers looking to change employers hope to change careers at the same time, 70% of employers are very keen to hire people who have experience of the position they are filling.

Before too long, however, young Japanese who held on to their full-time jobs may be rewarded. When Recruit started its special programme for *dai ni shinsotsu* in late-2002, it was banking on the looming shortfall of young talent resulting from an ageing workforce. Mr Suganuma says that the original plan was for this new part of the business to expand rapidly around 2007, which is when many forecasters say a bulge of older workers will retire. The new service has grown more quickly than expected, says Mr Suganuma, because the economy has been expanding rapidly during the past year, and firms are becoming more optimistic. Overall, there are now eight job openings in Japan for every ten applicants. The last time the ratio looked this good was in the 1980s.

Within a few years, today's freeters will start to lag further behind their full-time peers in skills and salary. And as more options open up for today's anxious and dissatisfied full-timers, many will be glad that they did it the hard way.

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Fiji

Go to jail

Aug 12th 2004 | SUVA
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The judges' growing power

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JUSTICE in Fiji is a slow process. Last week, the High Court sent the country's vice-president, Ratu Jope Seniloli, and deputy speaker, Ratu Rakuita Vakalalabure, to prison for participating in a failed coup attempt in May 2000. In a separate military court martial, 21 soldiers were incarcerated for their part in a mutiny later that year, in November. Protracted though the judicial process may be, Fiji is finally settling some important scores with those who sought to establish an ethnic supremacist state in the midst of the South Pacific four years ago.

Not everyone is happy about the court's decision. The prime minister, Laisenia Qarase, who is also an ethnic Fijian, expressed surprise and disappointment at the verdict. He doesn't deny that the two men are guilty, but says they were victims of circumstances. But despite those expressions of sympathy, Mr Qarase says he will accept the court's ruling and urges the country's Great Council of Chiefs, a powerful gathering of elders, to initiate the process of selecting a new vice-president.

This pattern has become familiar. Since the failed coup in 2000, Fiji's courts have made critical decisions, and the indigenous Fijian-dominated government has acquiesced, usually reluctantly and grudgingly. In March 2001, the Court of Appeal finally restored Fiji's 1997 constitution, forcing the government to call fresh elections. And when the High Court convicted the 2000 coup leader, George Speight, of treason and sentenced him to death, the government accepted the guilty verdict. It nonetheless hastily convened a mercy commission, which commuted the sentence to life imprisonment.

Court decisions could also have critical influence over the make-up of the government itself. According to the now reinstated 1997 constitution, all parties with more than 10% of seats in parliament are entitled to positions in the cabinet. This means Mr Qarase's party is legally obliged to share power with politicians representing the Indian minority, which makes up some 40% of the population. Mr Qarase would then have to work with the leader of the Labour Party, Mahendra Chaudhry. But the two men are bitter rivals, who personify the frictions between the majority ethnic Fijian community and the population of Indian descent. Both men have preferred to take the matter back to court, requesting judicial decisions about the size, composition and conduct of the cabinet.

So far, Fiji's courts have done a splendid job. But they cannot be expected to do everything. Ultimately, courts are supposed to punish wrongdoers or coup instigators, set out a legal framework and protect the constitution. The rest—including the composition of the cabinet—is politics, and the courts will work better if politicians do their job.

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China

Grudge match

Aug 12th 2004 | BEIJING
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The ugly face of Chinese nationalism

IT IS not unusual for soccer fans around the world to indulge in crude violence. While England is widely reckoned to lead the league tables in soccer hooliganism, fans in plenty of other countries have likewise disgraced themselves with boorish behaviour. China is no exception. Mob ugliness simmered for hours in Beijing during and following the Asian Cup final against Japan on August 7th, which ended in a 3-1 defeat for the home side. And yet there was something uniquely ominous in the air, as visceral and ferocious anti-Japanese sentiment boiled over.

After booing and heckling the Japanese team (and the Japanese national anthem) in the stadium, thousands of Chinese fans massed outside, many chanting vile and violent anti-Japanese curses, clashing with police, fighting, and throwing rubbish. The hardest of hard-core ruffians threatened anyone who looked Japanese and forced a busload of Japanese fans to retreat behind lines of body-armoured riot police. Later they moved their ugly show to the street outside the hotel of the Japanese team, which left Beijing the following day—ahead of schedule and under heavy police escort.

As the presence of so many riot police indicated, none of this was unexpected, and indeed many feared worse. Nationalism runs high in China, and anti-Japanese sentiment runs even higher. This stems from Japan's brutal wartime occupation of China, and from what the vast majority of Chinese consider Japan's utter failure to face up to its guilty history. More recent irritants include a bilateral territorial dispute over a group of islands and revelations that visiting Japanese businessmen in China have indulged in rampant orgies with local prostitutes.

Chinese leaders and state-run media have long made a practice of reinforcing a harsh line on Japan, scolding Japan for its past crimes and for its current attitudes, which validates negative sentiment among the people. With precious few permissible avenues for political expression in China, a high-stakes sporting event makes for a grand political stage.

Given all this (and the fact that all three Japanese goals involved dubious referee calls), Chinese authorities could breathe a sigh of relief that the violence was not worse. But as Beijing prepares to receive the Olympic flag upon the conclusion of the games in Athens, authorities now have to refute the suggestion raised by many—including the general secretary of the Asian Football Confederation, Peter Velappan—that China's nationalistic passions could interfere with its ability to host the 2008 Olympics.

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Iraq

Bad days in Najaf

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Reuters

Can the new government uphold the rule of law?

BLACK smoke billowed over box-like houses. The rap of gunfire and boom of heavy artillery filled the air. On August 12th, American and Iraqi troops launched what was touted as a final push to recapture Najaf, where the followers of Muqtada al-Sadr, a provocative Shia cleric, had been in open revolt for nearly two weeks. The new Iraqi prime minister, Iyad Allawi, is determined that the Mahdi Army, as Mr Sadr's followers style themselves, should submit to the rule of law. Whether or not he can make them will be a crucial test of his authority.

Mr Allawi has immense firepower at his disposal, but the assault carries huge political risks. If an American shell were to hit the Imam Ali shrine in Najaf, one of Shia Islam's holiest, it would outrage Iraq's Shia majority. Already, in Baghdad and Basra, angry Shias have taken to the streets to protest against this possibility, and against the certainty of casualties in Najaf. Naturally, the Sadrists are using the mosque as a fortress from which to toss mortar-bombs at coalition troops.

The Americans say they plan to drive the Sadrists out of the rest of Najaf, and then leave it to Iraqi forces to enter the mosque and tackle the militants hiding there. This is wise.

In the past, however, these forces have been reluctant to fight fellow Muslims. In April, many police deserted or defected to the Mahdi Army. They may feel more loyal now that they answer to Iraqi ministers rather than to an occupying power. But they may still not be prepared for a long campaign in Najaf, in Baghdad's Shia slums and in all the towns across the south where the Mahdi Army has support.

A resident of Najaf, who loathes the militants, was scornful of the Iraqi forces' capabilities. “The national guard fires into the air,” he said. “The Mahdi Army shoots to kill.” The ill-trained fighters of the Mahdi Army are in fact rotten shots. But no one doubts their eagerness to shed blood, whether their own or other people's.

Mr Allawi never wanted this confrontation—he has enough trouble already with Sunni Arab towns that deny his government's authority, such as Fallujah. Only a week ago, the prime minister's envoys were trying to persuade Mr Sadr to attend a planned national conference to choose an interim parliament, implying that if he were to abandon his rebellion he might be rewarded with a share of power.

It is not obvious what Mr Sadr hopes to gain from this battle, either. He has already secured his revolutionary credentials, at the cost of over a thousand of his followers' lives. Could it be that the whole mess in Najaf began by accident?

The spark was a firefight on August 2nd. American marines say they were ambushed outside Mr Sadr's home. The Sadrists say the marines had come to arrest their leader. The incident may have been a misunderstanding. In the next few days, Mahdi Army gunmen came pouring into Najaf to “defend” Mr Sadr. In Baghdad, Kufa, Nasiriya, Basra and elsewhere, Sadrists attacked police stations and coalition troops.

At first, the government prodded Mr Sadr to distance himself from the uprising. “We don't think the people who are committing the crimes in Najaf and elsewhere are [Mr Sadr's] people,” said the prime minister on August 7th, before visiting Najaf. He may have been encouraged by signs that Mr Sadr was growing impatient with his followers' radicalism. When congregants interrupted a recent Friday sermon with chants denouncing the government, he called them “ignoramuses”.

But within days, the young firebrand was blazing away again. On August 10th, he vowed to fight until the “last drop of my blood”. The next day, he urged his followers to carry on even after his death.

It may not come to that. Whereas in April the Americans said they wanted to arrest Mr Sadr for the murder last year of a fellow cleric, Mr Allawi has indicated that he would be happy if the Mahdi Army simply left Najaf. The Sadrists could probably do so and still remain potent. Mr Sadr is unpopular in the holy city, where he is blamed for four months of misery and bloodshed. His support base lies elsewhere: in neighbouring Kufa, and in the Baghdad slum of Sadr City (named after his late father, a top cleric).

During the last insurrection, the mediation of senior clergy and local tribes allowed both sides to back down without losing too much face. The same could perhaps happen again, although the absence of Ayatollah Ali al-Sistani, the most revered Shia cleric, who is in London seeking medical care, will make it harder.

Chalabis charged

Meanwhile, Iraq's Central Criminal Court has issued arrest warrants for Ahmed Chalabi, a man once tipped to be Iraq's next president, and his nephew. The senior Mr Chalabi is accused of holding forged old Iraqi dinars with intent to cash them in for the country's new currency. The younger man, Salem Chalabi, who is in charge of the special tribunal trying Saddam Hussein, is accused of complicity in the murder of a finance-ministry official who was investigating illicit seizures of properties in the chaotic aftermath of the war.

Both Chalabis furiously deny the accusations. Ahmed Chalabi returned to Iraq from abroad to face the charges. He claims that the court's chief investigating magistrate is “not a bona fide Iraqi judge”, and is pursuing a political vendetta. His spokesmen say that the forged notes in question were a sample held in his capacity as a government official, worth about $2. How the case is handled will be an important test of whether the new Iraq will be a nation governed by laws, or by men.

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Israel's far right

Ariel Sharon is a sissy

Aug 12th 2004 | JERUSALEM
From The Economist print edition

The minority of Israelis who think so could hobble the prime minister's plan to pull out of Gaza

Get article background

AFP

They shout. But will they shoot?

IF ARIEL SHARON orders Israel's army to evacuate all the Jewish settlers from the Gaza strip, would the settlers fight back? Mr Sharon's plan to pull out of Gaza and the northern West Bank next year enjoys wide public support in Israel, but a determined minority of extremists could yet scupper it. Nine years ago, a young ultra-Zionist called Yigal Amir murdered the then Israeli prime minister, Yitzhak Rabin, in the hope of preventing him from trading land for peace. Israel's security agency, Shin Bet, now worries that similarly zealous types may try to assassinate Mr Sharon to halt the Gaza withdrawal.

Without citing specific evidence, the agency's head, Avi Dichter, told a parliamentary committee that a few dozen Jews in the occupied territories "wish for Sharon's death", while another 150-200 activists could be relied upon to support them. Such threats are not taken lightly. Mr Sharon's security has been tightened, and his public appearances reduced.

Who are Israel's far-right extremists, and how far are they prepared to go? Shin Bet makes a range of alarming predictions. Jewish terrorists have murdered several Palestinians in recent years, sometimes even setting off bombs in Palestinian schools. The public-security minister, Tzachi Hanegbi, warns that they may attempt to destroy the al-Aqsa Mosque, a Muslim shrine on Jerusalem's Temple Mount, perhaps by crashing a bomb-packed aeroplane into it. That would probably spark a religious war.

Shin Bet identifies a core of extremists among the "hill people"—settlers who build heavily fortified "outpost" homes as provocatively deep inside Palestinian territory as they can. Israel's security services have proven adept at catching or killing Palestinian terrorists, but far less competent at winkling out Jewish ones. Efforts to catch those who murder Palestinians have yielded few results. Mr Dichter demands a freer hand against Jewish suspects. He may get it.

It is hard to say how much support the extremists enjoy. The 200,000 Israelis who live in Gaza and the West Bank are a mixed bunch. Many moved to settlements for practical reasons, such as subsidised housing. Only 20,000-25,000 settlers are considered "ideological". This is a tiny fraction of Israel's 5.2m Jews, but a highly motivated and organised one. Despite their numbers, both types of settler exert disproportionate influence over national politics.

Lately, they have been thwarting efforts to remove illegal West Bank "outposts", which Mr Sharon had promised the White House he would uproot. The settlers use a combination of force—hundreds or even thousands of them show up and obstruct evictions—and litigation, taking advantage of the tangled laws and poor enforcement in the occupied territories.

In May, Mr Sharon asked his party, Likud, to approve his plan to withdraw from Gaza. The settlers and Likud rebels defeated him. The prime minister put a diluted plan before his cabinet, which approved it in June, but only after delaying the final decision until March 2005. Mr Sharon's centre-right coalition collapsed. He is now trying to forge a coalition with the more dovish Labour party, headed by his old friend Shimon Peres.

On July 25th, the settlers organised a “human chain” of 130,000 protesters, stretching hand in hand from the Gaza settlements to Jerusalem. Though most Israelis disagree with the settlers' cause, no group of any significance is ready to take to the streets to support Mr Sharon. Seizing the initiative, the Yesha Council, the main settlers' lobby, plans to visit hundreds of thousands of Israeli homes in the coming weeks in an attempt to “settle in the hearts” of ordinary Israelis.

Fear of a “war between brothers” has deterred previous Israeli governments from removing even the tiniest, most troublesome settlements, ever since the evacuation of the Sinai peninsula in 1982, which was handed back to Egypt as part of a peace deal. In Sinai, baton-wielding Israeli police dragged yowling settlers off rooftops. Could the Gaza withdrawal be even more traumatic?

A fifth of the soldiers in Israeli combat units are either highly religious or from settler families. Would they obey orders to evict Jews? The Yesha Council argues that for soldiers to disobey orders would pose “an existential danger to Israel”. But other settlers view civil disobedience, and even mutiny, as legitimate means to avoid surrendering land they consider holy. Noam Federman, an extremist who was recently released from detention, calls the Gaza plan “a crossing of red lines” and warns that Mr Sharon “shouldn't expect the other side not to cross red lines as well”.

The army is nervous. It has already made great efforts to stigmatise left-wing refuseniks; it does not want to have to cope with mutinous rightists, too. The defence minister wants the police to carry out the evictions. The police want the army to do it. Either way, the settlers will doubtless prove exhaustingly difficult to move.

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Arab economies

Wallowing in cash

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A high oil price will delay reforms

IF YOU are wondering where your bigger petrol bills are going, look no further than Bahrain. It has just been sold for a reported $6.6m. Not the real Persian Gulf kingdom of Bahrain, but rather the five-acre replica off the coast of Dubai. “Bahrain” is one of 260 artificial islands that make up “The World”, a $1.8 billion man-made archipelago shaped like a world map—the latest giant property gimmick in an emirate with cash to fritter.

Dubai is not the only Arab state wallowing in an oily windfall. The real Bahrain has a $500m offshore resort under construction. Oman has “The Wave”, an exclusive seaside residential complex, and even dowdy Saudi Arabia plans a luxury marina at Al Khobar, a town better known for a recent and bloody terrorist attack on expatriate workers.

With oil prices at their highest level in two decades, revenues of some $600m a day are gushing into the Gulf, double the volume during the 1990s. The monarchies of the Gulf Co-operation Council are alone likely to earn $35 billion more from oil exports this year than last, according to Standard Chartered bank, and that excludes big producers such as Algeria, Libya and Iraq. With Arabs warier of investing in the West than during previous booms, more of the cash is staying at home.

Aside from a region-wide property boom, this has fuelled a surge in Arab stock indices. The combined market capitalisation of the 14 official Arab stock exchanges, from Casablanca to Muscat, has risen from $360 billion at the end of last year to $470 billion now. Saudi Arabia's alone has climbed by $60 billion, with its index up 37% this year, following a 79% climb in 2003. Operating profits for its largest listed firm, the partially privatised Saudi Telecom, have more than doubled, from $1.3 billion in 2002 to a projected $2.8 billion this year.

Even oil-poor countries are winning. Investment and tourism from the Gulf have restored some confidence in battered Lebanon, pushing Beirut's long-stagnant stock index up by 38% since December. Jordan's exports are up by a third from last year. Egypt's sickly economy is showing renewed signs of vigour, not least because of tolls from warships heading for Iraq through the Suez canal.

Government finances have also improved markedly, especially among Arab oil producers. Saudi Arabia, which based its budget on a forecast oil price of $19 a barrel (the 2004 average has been more like $35), is heading for a surplus estimated at $15 billion-30 billion. Algeria, a basket case in the 1990s, now hoards foreign-exchange reserves of $30 billion.

The bad news is that the Arabs' recent good fortune is poorly shared. Economists predict regional economic growth of some 5% this year. But this follows nearly two decades of relative slack that have left 80m out of 290m Arabs below the poverty line. And 5% is not fast enough to provide the 2.5m new jobs a year needed to contain Arab unemployment, let alone reduce it from its current level of perhaps 18%.

Jassem Saadoun, a Kuwaiti economist, observes that in the past, higher oil revenues have reduced pressure on governments to push through badly-needed reforms. Full coffers give governments little incentive to privatise, deregulate or make public accounts transparent, all long-standing demands of both foreign and local investors. Flush governments can carry on paying surplus bureaucrats to drink coffee, and subsidising inefficient firms owned by their cronies.

The other bad news for Arab states is that oil shocks aren't what they used to be. In 1981, oil prices spiked to the equivalent of $80 a barrel in today's money, pushing exports per capita among OPEC

producers to triple their current level. Then, crude oil sales made up nearly 8% of the world's GDP. Now they are closer to 2%.

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A plague of locusts in the Sahel

Billions of bugs

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How to curb the hungry swarms

A HANDFUL of locusts is a delicacy. Stir-fried, roasted or boiled, with peanuts or salt, the crunchy critters make a popular snack in parts of North Africa. A swarm of locusts, on the other hand, is a disaster. The Sahel region is experiencing its worst locust invasion in 15 years. Black clouds of them have descended on Mauritania, blotting out the sun, devastating fields and stripping gardens in the capital, Nouakchott.

Hundreds of swarms have also been observed in Senegal, Mali, Niger and Chad. Gambia has declared a state of emergency. Since October, some 6.5m hectares (16m acres) of land have been sprayed or otherwise treated to kill the insects, but the swarms keep moving south and eastwards. Unchecked, they could soon reach the Darfur region of Sudan, where people have enough trouble already with mounted gunmen torching their huts and shooting them.

A locust can eat its own weight (2 grams) every day. A swarm may contain several billion insects and can travel 100km (62 miles) in a day, leaving behind a wasteland sown with eggs. Recent ample rains have created ideal breeding and hatching conditions, so the swarms multiply as they spread. The latest have been spotted in Chad, just 400km from the Sudanese border.

Clive Elliott, the top locust man at the UN's Food and Agriculture Organisation (FAO), predicts that the swarms will cross into Darfur, and then perhaps move on into Pakistan and India. Most of the affected countries are too poor to cope, so the FAO is appealing for help. Donors have disbursed $9m and promised a further $10m, but the FAO thinks $50m-80m may be needed. The last great locust plague in the region, in 1987-89, cost $300m to deal with.

How can the swarms be stopped? Pesticides are the most effective means. Sprayed from the air or from a tractor, they generally kill locusts within 24 hours. Environmentalists fret that slathering wide areas with chemicals may harm people and other animals. But supposedly greener alternatives are more costly and less effective. For example, a naturally occurring fungus called *metarhizium* has been developed into a biopesticide called *Green Muscle*, but it takes two weeks to kill a locust, during which time a swarm could ravage thousands of hectares. And it costs nearly twice as much as traditional chemicals.

Simpler techniques may work better. Ploughing a field full of locust eggs can suffocate the pests. Larvae can be buried in trenches before they metamorphose. There is no time to dally. The next generation is due to hatch next month.

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Peace in Burundi, almost

Building from scratch

Aug 12th 2004 | BUJUMBURA
From The Economist print edition

Hutus and Tutsis get along better

ON EVERY corner, hopeful residents have piled building materials: clay and mud bricks, sand and cement. Amid the debris of a decade of war, new shops and huts are sprouting. Best of all, the men with guns are getting along well. Burundi's rebels used to hide in the shanty-towns of Bujumbura, the capital, prompting the army to unleash its indiscriminate wrath on the civilians they hid among. But now the rebels have swapped their khakis for government camouflage, and swagger through the streets with their former enemy. “Things have really changed,” sighs a war-weary but happy Burundian.

After 11 years and 300,000 deaths, Burundi's civil war appears to be winding up. It began in 1993 when a gang of renegade officers belonging to the minority Tutsi tribe murdered a president from the majority Hutus. In 2000, the Tutsi-dominated regime signed a peace accord that brought most Hutu rebel groups into a transitional government. That government's mandate expires on October 31st, when an election is supposed to be held. The poll seems increasingly unlikely to be held on schedule, but few people expect a return to war.

Sixteen of Burundi's 17 provinces are now quiet, thanks primarily to a deal in November 2003 between the government and the Forces for the Defence of Democracy (FDD), the main Hutu rebel group. Unlike previous ceasefires, this one not only held, but gave way to hand-in-glove co-operation between the FDD and the army to root out the most stubborn group of Hutu rebels, the Forces of National Liberation (FNL). Conventional wisdom had held that the FNL, a rugged force of farmers-by-day and guerrillas-by-night, could not be defeated militarily. But combined operations have squeezed its fighters into a small slice of territory south of Bujumbura. The FNL still refuses to negotiate with the government, but in June it contacted the head of the new UN peacekeeping mission in Burundi, who believes that the group can be talked round.

The country's economy is also bouncing back, albeit from one of the world's lowest bases. The UN mission and expatriate Burundians have brought enough hard currency into the country almost to eliminate the spread between the official and black-market exchange rates.

Yields of beans and rice, crops that grow quickly, are already up, and sugar and cotton should follow. Peasants are also paying more attention to their coffee plants, which account for 80% of Burundi's export earnings. Traders are even getting a measure of relief from army and rebel extortion. “They make gentle demands, and if you say no, it's okay,” says one businessman.

Burundi's Tutsi-run political parties make less gentle demands. Though only 14% of Burundians are Tutsi, they want a Tutsi vice-president with a veto on important decisions. Hutu parties, who have already offered them 40% of the seats in the national assembly, have refused. But, as the negotiations creep ahead with the help of patient UN mediators, at least the nation's soldiery is acting more like the servant of a civilian regime, rather than its master.

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South Africa

The party of apartheid departs

Aug 12th 2004 | JOHANNESBURG
From The Economist print edition

Now a serious opposition is needed

FOR most of its long history, the sole aim of South Africa's National Party was to uphold white supremacy. Since apartheid, its creation, died in 1994, the party has had no obvious reason to exist. This week, its leader, Marthinus van Schalkwyk, all but acknowledged as much. He announced he was joining the ruling African National Congress (ANC), and advised his small rump of followers to do the same.

The party was nearly defunct anyway. A mere 1.7% of voters backed the “Nats” at elections in April. Next year, during a designated period when legislators are allowed to shift their allegiance, its seven MPs will probably join the ANC.

The opportunistic Mr van Schalkwyk had nearly led his party into oblivion once before, in 2000, when he agreed to merge it with the liberal Democratic Party, the most effective of South Africa's opposition minnows. But then, in December 2001, he instead decided to form an alliance with the ANC in order, he said, to promote racial reconciliation. He was rewarded with the powerful job of minister of tourism. Explaining his decision to join the ruling party formally this week, he said that “the real debate about the future of the country is within the ANC and not outside.” The worrying thing is that he may be right.

Even if the opposition were not divided, the ANC's dominance would be virtually unchallengeable. The party has 70% of the seats in parliament. Opposition parties can barely muster enough MPs to sit on committees and scrutinise bills. The only large black one, the Zulu nationalist Inkatha Freedom Party, is losing support.

Yet still, the ANC seeks to entrench itself even further. South African MPs are drawn from party lists, rather than to represent constituencies, but parliament has changed the rules to allow them to cross the floor. This enables the ANC to use its vast powers of patronage to tempt opposition MPs to defect. The result, says Tom Lodge, a political scientist, is impoverished debate, especially in parliament. “You can't simply trust the ANC alone to look after democracy,” he says.

Other groups—AIDS activists, journalists, artists, lawyers, churchmen and the like—keep debate alive by flaying policies they dislike. But South Africa's thin-skinned president, Thabo Mbeki, bristles even at that. Two weeks ago he complained to journalists of a “consistent effort to find fault with, and criticise, the government and the ruling party at all costs”.

One newspaper editor says the government feels a “sense of siege”. Instead of engaging critics of his policies on, for example, AIDS and Zimbabwe, the president warns of “enemies lurking everywhere”. Some analysts ascribe Mr Mbeki's defensiveness to his formative years in exile, when the ANC was always on its guard against infiltration by apartheid agents. Party discipline was paramount. It still is.

The ANC seeks constantly to “deploy” its “cadres” to posts where they can control the country's “levers of power”. Staff at the nominally independent state broadcaster complain that their new bosses unabashedly back the ANC. Several have resigned.

In various institutions, Mr Lodge notes “an overwhelming willingness to please the establishment”. Trade unionists and civil activists, when complaining about specific grievances, emphasise that they are not criticising the government more generally. That is disappointing. Those who spoke out in the past helped to bring democracy to South Africa, and to kill off Mr van Schalkwyk's unpleasant party. Silence and sycophancy are hardly the best ways to preserve those gains.

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Germany

It's those people, all over again

Aug 12th 2004 | MAGDEBURG
From The Economist print edition

Reuters

Slogans that helped to topple East German communism are now being used to defend an exceptionally generous welfare system

Get article background

FIFTEEN years ago, the burghers of this medieval city inspired the world with their clarion calls, heard at protest meetings every Monday, against East German communism: “We are the people”, or still more powerfully, “We are *one* people”—a demand for reunification which was satisfied sooner than anyone expected.

Recently the Monday rallies have returned to Magdeburg's historic streets, as well as to Leipzig and half a dozen other eastern German cities. Old slogans are being revived as a protest against the harshness of capitalism—and in particular against a law that will reduce benefits for the long-term unemployed.

History never repeats itself exactly. But on August 9th, when more than 12,000 protesters gathered in front of Magdeburg's Gothic cathedral—having numbered 600, and then 6,000, on the preceding two Mondays—there were faint echoes of the anti-communist rallies. It was a peaceful crowd of all ages. They have vowed to return each Monday until the government abandons the dreaded “Hartz IV” law, the fourth piece of legislation implementing reform proposals from a commission led by Peter Hartz, personnel director at Volkswagen.

“People don't care whether the system they live in is called socialism or capitalism. They want a life—and having a job is part of it,” said Andreas Ehrholdt, a protester who has not worked for a decade.

Do these new demonstrations signal serious unrest? If so, could Chancellor Gerhard Schröder's broader set of reforms, Agenda 2010, be rolled back? Politicians from both government and opposition are getting nervous. Although most supported the passage of Hartz IV late last year, many are now stepping back—especially those who face the voters soon. Georg Milbradt, the conservative premier of the state of Saxony, where elections are due on September 19th, has suggested postponing implementation of the law, now due to come into force in January.

If people like Mr Milbradt feel wrong-footed, it is because they failed to see that the law, though not radical by world standards, amounts to a big about-face for Germany and its welfare system. Over the years this has become a giant insurance policy, designed to cushion living standards. It has proved costly and counter-productive: a large chunk of the unemployment rate reflects the fact that the jobless have little reason to return to work.

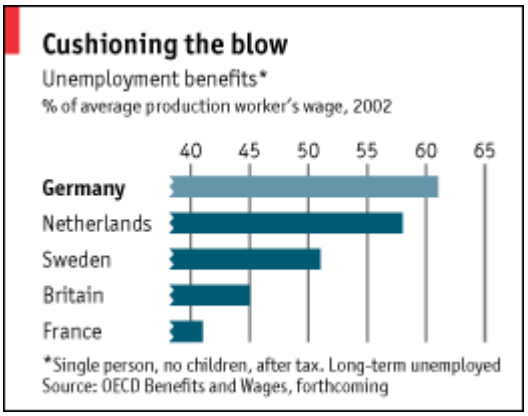
Even compared with those in other generous countries (see chart), out-of-work Germans are well protected. People who lose their jobs get unemployment benefit of 60% of their previous earnings (or 67% if they have children) for up to 32 months. After that, payments drop to between 53% and 57%, but have no time limit. By this stage, payments are known as *Arbeitslosenhilfe*, or unemployment aid. Add in other perks, like family and housing benefits, and it is easy to see why workers with few skills—making up over half the unemployed—eschew badly paid jobs.

To change this, Hartz IV will shorten the period of unemployment benefit to 12 months (or 18 months for those over 55) and do away with the second phase of unemployment aid. Instead, the long-term unemployed will receive a flat-rate benefit, means-tested and paid only to those who seek work seriously. On average, benefits for single people living in western Germany will be €345 ($422) a month; for those in the east, the level will be €331 plus rent and heating allowances.

The Hartz reforms have been presented as a way to "support the jobless" in their search for work. Another Hartz law aims to turn the Federal Labour Office, Germany's largest bureaucracy, into a customer-friendly employment agency.

While many analysts say the reforms are too cautious, they will be quite painful—especially in the east, where unemployment is 18.5%, versus 8.5% in the west. Yet if people are angry, it is because the government has failed to inform them, and the tabloid press is spreading half-truths. At the Magdeburg rally, protesters plied reporters with questions. Will children's savings be taken into account? (Yes, above a certain threshold, because parents would otherwise move money to their offspring's accounts.) Must we move to a smaller home? (In most cases, no.)

Such questions suggest that the protest rallies, which were attended by about 40,000 last Monday, may fizzle once the government has launched its planned information campaign. But that may underestimate the East Germans, who showed their staying power in 1989.



Then again, a democratic government is harder to destabilise than a sclerotic communist one. The protests will probably have real impact only if they take hold in the west, where the demos have so far been paltry. But a spillover is possible: the western German middle class is feeling nervous about economic decline.

In any case, the political fallout will be felt at the forthcoming elections. The ex-communists have made Hartz IV their main campaign issue, calling it "poverty by law". Chances are that their party, the Party of Democratic Socialism (PDS), will become the number-two political force in the state of Saxony and possibly number one in Brandenburg, where elections are held the same day. Extreme-right groups will also gain votes. Protests against Hartz IV will also benefit a new left-wing party, being formed by dissident Social Democrats and trade unionists. This week, Oskar Lafontaine, a populist ex-chairman of the ruling Social Democrats, threatened to defect to the new party unless Mr Schröder resigned and Agenda 2010 were scrapped.

The chancellor is unlikely to do his arch-enemy either of these favours, although his government decided on August 11th to bring forward the first payouts of the new benefit, and allow children more savings. In fact, Mr Schröder has reason to be optimistic, despite all the protests and dismal election results. His health-care reform is showing some positive effects. Siemens, DaimlerChrysler and other firms have finally cut deals with trade unions to deregulate labour markets from the bottom up. The public mood is improving, with newspapers saying Germany's situation may not be hopeless after all. Most importantly, growth seems to be coming back, albeit only driven by exports. Even the revival of the PDS and the emergence of a new left-wing party could work to Mr Schröder's benefit—because both developments mean fewer opponents of Agenda 2010 will vote for the right. In Saxony, for instance, the Christian Democrats will probably lose their majority in the legislature and could be forced into a coalition, maybe with the Social Democrats.

In Magdeburg language, today's Germany is not “one people” united against tyranny, but a kaleidoscope of shifting interest-groups—thanks to the democracy that the 1989 protests helped create.

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Ukraine

To which Viktor, the spoils?

Aug 12th 2004 | KIEV
From The Economist print edition

An election that will usher in a messy but interesting era

Reuters

Leaping to victory? Yushchenko's hopes are high

WITH its modern art and bespoke furniture, Inna Bohoslovska's office is a place where you might expect to meet a Californian personal-development adviser, not a Ukrainian politician. Perhaps that is not too surprising, since she also runs a chic consulting firm. And, with the can-do spirit that she brings to her business, she insists that Ukraine can become a European success story, like Ireland.

After co-founding a short-lived political party for the parliamentary elections of 2002, Mrs Bohoslovska was one of a handful of youngish technocrats brought into the government to freshen it up. She quit after briefly running a state committee on entrepreneurial activity because “you can't construct a separate, modern ministry while the rest of the government remains archaic.”

Still, the very fact that Ukraine's politics has room for sharp-minded figures like Mrs Bohoslovska is a reminder that, in Kiev, public debate is in a healthier state than in Moscow, where parliament is close to being a rubber-stamp for the Kremlin.

After the presidential election on October 31st, Ukrainian politics will be even more lively. Whoever wins—Viktor Yushchenko, an ex-prime minister and central-bank governor, or Viktor Yanukovich, current prime minister and the choice of Leonid Kuchma, the outgoing president—it will upset the apple-cart. For a decade, Mr Kuchma has held the ring between oligarchic clans that compete to dominate business and politics. Mr Yanukovich hails from the Donetsk clan. He has little sway over either the Kiev group, led by Viktor Medvedchuk, Mr Kuchma's chief of staff, or the Dnipropetrovsk clan behind Viktor Pinchuk, a businessman and Mr Kuchma's son-in-law. But both bigwigs prefer him to Mr Yushchenko, who has vowed to “end corruption” and send “bandits” to jail.

His words seem to resonate. Even though the oligarchs control all but one of the main television stations, Mr Yushchenko continues to lead: a poll earlier this month by the Razumkov Centre in Kiev gave him 28% against Mr Yanukovich's 21%. Under Mr Kuchma, the economy has recently started doing better—thanks partly to Mr Yushchenko's brief, reformist premiership—but the oligarchs' grip has become ever tighter and more cynical.

In June Kryvorizhstal, a state-owned steelworks, was sold to a consortium led by Mr Pinchuk and Rinat

Akhmetov, a Donetsk magnate, in an auction blatantly rigged to exclude foreign firms that had offered two or three times the price. Observers saw a move both to grab state property, and to forge an inter-clan alliance for the period after Mr Kuchma.

This will make Mr Yushchenko's rule, if he wins, difficult—and he knows it. In an interview, he was cagey about plans to hunt the oligarchs. “I don't exclude investigations of the clans behind Medvedchuk or Yanukovich, but the rest of business wants clear rules,” he says. The omission of Mr Pinchuk is a sign that he may want a truce with Ukraine's biggest magnate.

Mr Yushchenko will face another hurdle if the government succeeds in a bid to change the constitution and transfer some powers—such as naming ministers—to parliament. This measure passed a preliminary reading in June. If the government can induce two swing parties, the Communists and Socialists, to give it the needed two-thirds majority in September, the next president's wings will be clipped.

In any case, Mr Yushchenko may not win. Mr Yanukovich will appeal to Ukraine's split personality. His campaign aims to limit Mr Yushchenko to his home base of support in western Ukraine, calling him both a nationalist who will ignore the Russian-oriented part of the country and a western stooge who will alienate Russia. Mr Kuchma, in a bid to curry Russian favour, is tilting eastwards; he has dropped talk of eventual EU and NATO memberships and agreed to let the Odessa-Brody pipeline, designed to carry Caspian oil to Europe across Ukraine, be used for Russian oil instead. Mr Yushchenko tries to be more pro-western, but pressure seems to be telling: once an advocate of keeping Ukrainian troops in Iraq, he this week urged their withdrawal.

Whoever wins, there will be some creative chaos. But compared with the dull authoritarianism of Russian politics, that may not be all bad.

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The Olympics

For a wreath, a flag—or cash?

Aug 12th 2004
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A global market in brawn could challenge Olympic chauvinism

AP

Shaheen: I'm Qatari now

IF DEMOSTHENES, the ancient Greek orator, could observe the Athens Olympics, he might devote one of his tirades to the ever-changing relationship between nations, individuals and sports.

In his time, of course, only Greeks could take part in the games. Rivalry between the warring Hellenic states was set aside to allow for noble competition between individual sportsmen—whose only reward was an olive wreath.

But in 1896, when the games were revived—in Greece again—modern nationalism was on the rise in Europe. People thought history was made, and states were built, by well-defined, hermetically sealed "nations" with a supreme claim on their subjects' loyalty. No wonder, then, that the modern games became a contest not among athletes but between countries. Over the course of the 20th century, as the whole world caught nation-state fever, having a fine Olympic team became as important a symbol for newly formed countries as a flag, an anthem, an airline and a big embassy in a leafy district of Washington, DC.

But how will it be in the 21st century, when capital and labour flow seamlessly across national boundaries, and more and more people change their citizenship several times over a lifetime?

Already, some athletes switch countries because competition for Olympic places at home is too fierce, or to get better training—or just because money talks. And nationalism itself is fuelling a market in brawn, as rich states buy talent from poor ones. Qatar and Bahrain have poached eight athletes in all from Kenya. Stephen Cherono, a Kenyan runner, is, for example, said to have been promised $1,000 a month for life to become a Qatari named Saif Saeed Shaheen.

Rich countries are not the only buyers. A Cuban-born triple jumper, Yamile Aldama, was prevented from competing for Britain because she could not get British citizenship in time, though she lives in London. So Ms Aldama went to Khartoum to become Sudanese in two days.

The masters of the games hate this. "We should avoid this transfer market in athletes," the International Olympic Committee (IOC) president, Jacques Rogge, has said. "We don't like athletes being lured by large incentives by other countries and giving them a passport when they arrive at the airport."

But in a world where multinational corporations sponsor the games, why shouldn't there be multinational athletes? Probably because cheering one's flag is still one of the event's main selling points, and a free market in athletes would endanger the national pride that still underlies the event's commercial success. "The money depends on the audience, and the audience depends on symbolisms, which often include nationalism," says Laurence Chalip, co-author of a textbook, "Sport Governance in the Global Community".

Kevin Wamsley, director of the Centre for Olympic Studies, says the IOC may be on a "slippery slope" as borders erode. "It might be better for sport if people stopped cheering for nations and cheered for individuals, but that's not what the Olympics have been built on."

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Greece and Turkey

Mr Erdogan's Greek friend

Aug 12th 2004 | ATHENS
From The Economist print edition

Chumminess will help, but not suffice, if foes are to turn into partners

Reuters

Best of buddies: Karamanlis and Erdogan

COSTAS KARAMANLIS, the Greek prime minister, will have his work cut out playing host to the world's past and present leaders in a gleaming, refurbished Athens over the next couple of weeks. Some 60 are due to make an appearance at the Olympics, including America's George Bush senior and three leaders of countries that are keen to stage the 2012 games: France's Jacques Chirac, Britain's Tony Blair and Vladimir Putin of Russia. Protocol may dictate otherwise, but most Greeks know that the real guest of honour will be Recep Tayyip Erdogan, a reformist (and moderately Islamist) Turkish prime minister whose personal friendship with Mr Karamanlis has blossomed.

Mr Erdogan's original plan was to attend the Olympic opening ceremony and return to Athens later this month to see Sureyya Ayhan, Turkey's leading athlete, run in the women's 1,500-metres contest. But Ms Ayhan, a favourite for a medal, has pulled out, claiming injury, though rumours are rife of a doping scandal. Mr Erdogan, an avid sports fan, may decide to watch the weightlifting instead; Turkey's Halil Mutlu is a strong contender. But if Greece repeats its performance at the Euro 2004 tournament, and reaches the finals of the soccer competition, expect Mr Erdogan to sit next to Mr Karamanlis, who loves football, for the big match.

The flourishing personal relationship between the Greek and Turkish prime ministers also has some serious content. Every social occasion—such as Mr Karamanlis's visit to Istanbul last month to act as a chief witness at the wedding of Mr Erdogan's daughter Esra—gives a chance for a political exchange. Greece has been a strong supporter of Turkey's campaign to win a date from the European Union in December for the start of accession negotiations. Greek and Turkish diplomats also hold regular talking sessions in Athens and Ankara on a range of long-running disputes over sovereignty in the Aegean.

The talks, hamstrung by legal debates about old treaties, go nowhere and are not expected to yield progress soon. But once Turkey is on the road, however long, to EU membership, some of the Aegean disputes may no longer be relevant. Others, such as those over territorial waters, may turn out to be easier to address in a European political framework.

On the thorny old question of Cyprus, which always lurks in the background, changes are afoot this autumn, and the two prime ministers will need to draw on the reserve of goodwill they have built up. The EU stands poised to reduce the isolation of the Turkish-Cypriots, whose enclave in the north of their disputed island is recognised only by Turkey. Last week the European Commission approved €2.5m ($3m) to remove landmines in Cyprus, as part of a broad effort to build confidence between the island's outcast north and its Greek-dominated, internationally-recognised south. However, approval of a €259m aid package for the Turkish-Cypriots has been delayed until next month because of a threatened veto by the Greek-Cypriot authorities. They were admitted to the Union in May, along with nine other new governments, although Greek Cypriots had rejected a UN reunification plan under which the whole island would have enjoyed the Union's benefits. As a result, the Turkish-Cypriots were left in the cold, although they backed the plan.

With the support of Greece's representatives in Brussels, the Greek-Cypriots have blocked attempts to open airports in the north to direct commercial flights—on the ground that this would give the Turkish-

Cypriots less reason to join up, eventually, with their neighbours to the south.

This sort of thing makes Greek-Turkish reconciliation harder to sustain. For now, it seems, Mr Karamanlis and Mr Erdogan are not letting Cyprus cast a shadow over their comradeship. Once the games are over, though, the going will be tougher.

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Turkey

Mrs Erdogan's many friends

Aug 12th 2004 | ANKARA
From The Economist print edition

A delicate balancing act has wider implications for Turkey

AP

First ladies talk Turkey: Laura and Emine

Get article background

WHEN Emine Erdogan's husband Tayyip became prime minister 17 months ago, there were many influential Turks—both religious ones like the Erdogans, or the secular types who oppose everything they stand for—who hoped she would be a docile wife and stay at home. Secularists were unhappy about their country being represented by a woman who, like more than half her female compatriots, covers her head in a sign of devotion to Islam. Pious voters had the opposite fear: they feel queasy when they see a devout Muslim lady hobnobbing with rich and powerful westerners.

But as it turns out, Mrs Erdogan has been more visible, more influential—and on the whole, more popular—than any Turkish prime minister's spouse for a couple of decades. That means she has succeeded in a near-impossible balancing act.

As a Muslim lady who wears a headscarf, she cannot attend official functions because such attire is banned in government offices and schools. But she has also been at pains to avoid giving the impression of being an Islamist zealot—without alienating her husband's supporters. To break her Ramadan fast, she joined devout Muslims in an Ankara slum; but she also seems at home with Laura Bush, the American First Lady.

Described by friends as tough, intelligent and humorous, the deeply devout Mrs Erdogan carries considerable weight behind the scenes, in an administration that is continually having to calculate when to assert, and when to restrain, its Islamist instincts.

Her life story is intriguing. Born into a modest ethnic-Arab family from the south-eastern province of Siirt, Mrs Erdogan embraced Islamist politics at an early age. She met her husband at a rally in Istanbul where Mr Erdogan, then a fiery youth leader, was reciting poetry. At first they had to overcome resistance from Tayyip's mother, who insisted her son marry a girl shrouded in the full head-to-toe chador instead. “Tayyip lost weight trying to win over his mother, he looked like a ghost,” said Sule Yuksel Senler, an Islamist woman writer, who acted as go-between.

Through her work in the women's arm of the now defunct Welfare party, Emine helped her husband

become mayor of Istanbul in 1994. He was removed from office four years later on charges of seeking to incite a religious rebellion through a poem he recited at a rally in Siirt. He spent four months in jail on the same charges.

The experience marked the couple profoundly. Mr Erdogan broke away from the Islamists to form his own party, saying his new goal was to lead Turkey into the European Union. Around that time Mrs Erdogan, friends say, converted from Shafi'ism (an orthodox version of Sunni Islam which forbids all physical contact between men and women unless they are married) to the more liberal Hanafi school, followed by most Turks, so she could shake hands with men and non-Muslim women.

For a country like Turkey that is struggling to find the right note in dealing with the western world, Mrs Erdogan's success points to an important truth. A more deeply democratic Turkey might well be a more pious one—but that does not mean it would automatically hate the West.

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The homeless

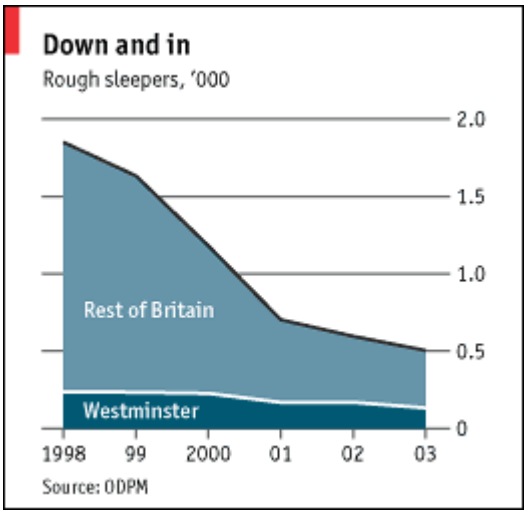
Where have all the homeless gone?

Aug 12th 2004
From The Economist print edition

Rough sleeping becomes rarer, and tougher

YOU have to go in search of London's homeless these days. The big encampments that blighted the city in the 1980s and 1990s—Waterloo's “cardboard city”, Lincoln's Inn Fields, the Savoy Gardens—have been harried out of existence. Nick Barquinha, an outreach worker with Thames Reach Bondway, has some difficulty locating clusters of homeless people even in the traditional hot spots of Hyde Park and Temple. Eventually, he spots a man sprawled drunkenly near the back of the Savoy Hotel. “He won't sleep for long,” Mr Barquinha says, evenly.

Down-and-outs have become steadily harder to find. A snap count last year tallied just 504 rough sleepers in the cities of England and Wales. There were 133 in Westminster—long the homeless capital of Britain, thanks to anonymous streets and free soup. The 1998 total was 1,850, which was almost certainly fewer than a decade earlier. Numbers are disputed, but the trend is not. The most visible kind of desperation is becoming rarer.



The streets of London now look very different to those of New York, where tough (and much admired) policies on begging were pioneered in the 1990s. That city found 2,694 people on the streets on a cold night earlier this year. Pressure on housing in New York is heavy, but that is equally true of London. Some 65,000 households in the capital are now “statutorily” homeless and living in temporary digs—a 33% rise since 2000. Waiting lists for permanent housing are long and interim conditions sometimes dismal. But Londoners aren't ending up on the streets, or, at least, not for long.

Why not? There are several reasons. Compared to America, the benefits system is relatively generous and fairly stable, which may be more important: abrupt reforms in the late 1980s sent many young men on to the streets. And the alternatives to living alfresco are better than in New York, and better than they used to be. London's direct-access hostels have converted dormitories into single rooms, which means fewer beds (about 3,000 today, compared with almost 10,000 in the early 1980s) but more enticing ones.

Lest the homeless remain unimpressed by these allurements, the pros of indoor facilities are aggressively touted. Outreach workers are well organised and increasingly unwilling to take no for an answer. Groups of the homeless are tackled before they can put down roots. “There's always going to be someone in their face, whether it's us or the police,” says Mr Barquinha.

Increasingly, persistent beggars and drunks are slapped with Anti-Social Behaviour Orders or simply arrested. Giving has been deterred through propaganda campaigns, which aim to persuade the soft-hearted that most beggars will use the money to buy drugs, and that few are truly homeless. The first allegation is valid: four-fifths of those caught in Westminster's sweeps have tested positive for Class A drugs. The second is not, according to Suzanne Fitzpatrick, a homelessness expert at York University. But local authorities are undeterred. They even blame church groups, who dish out soup and kind words, for sustaining chaotic lifestyles.

As homelessness policies toughen, though, so do the homeless. The removal of reluctant rough sleepers has left a hard core on the streets. They are tricky to uproot, which helps explain why Westminster,

where they are concentrated, has seen less reduction than other areas. More intractable still are a group of 25 to 50 men from the new EU member states who regularly bed down around Victoria Coach Station. Getting them into a hostel requires housing benefit; following a panicky government decision in February, they have been denied it.

For a decade, the objective has been the same: ending rough sleeping in Britain. It's a brave campaign that has stabilised thousands of lives. But as the homeless become fewer and more intransigent, eradication seems less realistic. It's hard to see how it could be done without sending many of them to jail; and even this government may not want to be that tough.

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Islamic banking

Sharianomics

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Britain's first Islamic bank gets official approval

THE scriptural advice is clear: banking will not get you into the Almighty's good books. All three of the Abrahamic religions frown on usury. But while most Christians and Jews long ago found ways of squaring the needs of their businesses with the demands of their faith, many Muslims still believe that charging or paying interest is wrong.

Until recently this meant that the devout were excluded from British banks, which all pay interest on deposits and charge it on loans. Middle Eastern firms developed *sharia*-approved financial services in the 1970s, and the global market is now worth about $200 billion, according to Permal, a finance house involved in the sector. Islamic mortgages have been available in Britain (from the Ahli United Bank) since 1997, and HSBC launched a *halal* mortgage in 2003.

Last week regulators granted a licence to Britain's first *sharia*-compliant bank, the Islamic Bank of Britain. It plans to offer Islamic versions of traditional services—deposit accounts, personal loans and mortgages—in Muslim areas of Leicester, Birmingham and London, although the bank will be open to anyone. “We'll compete with all the major banks up and down the high street,” says Michael Hanlon, the managing director.

So how will it work? On top of banning interest, the Koran prohibits “making money from money” and investment in sectors considered immoral. Deposit accounts will operate rather like unit trusts, with funds invested on the depositor's behalf and a share of the profits replacing interest payments. A *sharia* committee will make sure that no money goes to questionable outfits involved in, for example, pornography or alcohol—or usurious, non-Islamic banking. Mortgages and loans will use a “hire-purchase” scheme whereby the bank buys goods on the customer's behalf. He then pays the bank a series of instalments until the cost, plus a profit for the bank, has been met.

Some of this may seem like hair-splitting—for example, a normal interest-bearing loan is, in effect, the same as the bank's hire-purchase system—but the distinction matters to many. Mr Hanlon points out that those among Britain's 1.8m Muslims who were previously unwilling to take out a mortgage will now be able to buy a house. Even religious demands create their own supply.

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British Muslims

The kiss of death

Aug 12th 2004
From The Economist print edition

Pro-Muslim policies may undermine those they are intended to support

LORD AHMED, one of the four prominent Muslims who have been elevated to the peerage, says life at the top has been full of nice surprises. When he entered the House of Lords, the sages who study and enforce Westminster's arcane traditions initially demurred at his request to take an oath on the Koran: this would require a change of law which might take up to a year to pass. So he urged them to delve more deeply into the tradition; and in a bold act of legal interpretation—*ijtihad*, in Muslim parlance—it was decided that since the House of Lords was Britain's top judicial authority, it could set its own rules in respect of swearing-in ceremonies. So he should just take his oath on Islam's holy writ, and a precedent would be set for the next millennium or so. Soon after, the House of Lords, where regular worship is led by the Anglican bishops who sit in it, acceded to his request for a Muslim prayer room to be set aside on the premises.

Similar facilities should soon be created at many British police stations, predicts Dal Babu, the head of the Association of Muslim Police Officers. Scotland Yard, the London police headquarters, already has a place for Muslims to pray; as smaller stations follow suit, more Muslims will take advantage of the "fantastic opportunities" of a police career, he believes.

In one way or another, the institutions that run Britain are trying to adapt to the needs and sensibilities of the Islamic community. The monarchy is setting an example: Prince Charles, who has a long-standing interest in Islamic art and architecture, has said that "Islam can teach us today a way of understanding and living in the world which Christianity itself is the poorer for having lost." The future head of the Anglican church has made at least three speeches about Islam's virtues this year. The attention he has paid to the subject has made him the establishment's most popular figure among Muslims (though, given current attitudes, the competition is not fierce).

The Financial Services Authority, the City's regulator, has just approved the country's first Islamic bank (see article). The Foreign Office devotes considerable resources to providing medical and consular services for the 20,000 or so Britons who go on pilgrimage every year to Mecca; it recently appointed its first Muslim ambassador (to Bangladesh). The defence ministry says it has retained the services of a senior figure in British Islam to advise it on faith issues as they affect the 300-or-so Muslims in the forces—such as whether soldiers can be expected to do hard training while observing the Ramadan fast. (The answer is that they should postpone their training for a month.) Eton, an elite private school, has hired a Muslim cleric to join the raft of Christian clergy who minister to its pupils' spiritual needs.

This sort of flexibility prompts Lord Ahmed to say that in Britain, the establishment is "more welcoming to Islam than in any other country in Europe". This does not mean, he agrees, that everything is rosy for British Muslims: coming from the north of England, he acknowledges the "huge problems of social exclusion" that face his co-religionists who will never wear ermine. But, in his view, British and European institutions offer Muslims opportunities to improve their lot, politically and financially, which have not been fully exploited. Sometimes, he suggests, it is just a matter of overcoming shyness.

But for other Muslim politicians, a real dilemma—to join the establishment, or to fight it—does exist, and it has grown sharper since the local and by-elections this summer which showed that the Iraq war had lost Labour the support of many Muslims. Lady Uddin, a Labour peeress from east London, admits that loyalty to her party and credibility among ordinary Muslims have become harder to combine. She says she is dismayed and frustrated by the government's lack of interest in regaining Muslim trust.

The government, meanwhile, faces a "kiss-of-death" problem: the more it tries to accommodate leading Muslims, the more its partners risk being seen as patsies. The Muslim Council of Britain (MCB), an

umbrella movement of hundreds of smaller organisations, is the government's most important interlocutor. It has spoken out boldly in favour of co-operation with police against terrorism. But some Muslim grandees learned a hard lesson in 2001 when Tony Blair persuaded a number of them to endorse the Anglo-American attack on Afghanistan. They have not regained the credibility they lost on the street. That's partly why the MCB is careful to wag its finger at the government over issues ranging from female attire to foreign policy, everywhere from the Middle East to Kashmir to Chechnya.

Even Lord Ahmed is critical of the government's strategy for wooing Muslims. It has, he says, sometimes been too elitist and top-down. As he puts it, “we Yorkshiremen don't like policies handed down to us by London.”

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Blair's travels

By their holidays shall ye know them

Aug 12th 2004
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Tony Blair's questionable choice of hosts

HAROLD WILSON pottered around a glamour-free bungalow in the Scilly Isles; James Callaghan preferred a quiet Sussex farmhouse; Margaret Thatcher reluctantly took the occasional short break in Switzerland and Cornwall; the Blairs, meanwhile, are on a mansion-crawl. They spent the first part of their holiday in a villa in Barbados belonging to Sir Cliff Richard, a former pop star; then, after nipping off to the opening ceremony of the Olympics on August 13th, they will make for Italy, initially to the Tuscan mansion of Prince Girolamo Strozzi, then to Silvio Berlusconi's Sardinian hideaway.

For better or worse, politicians' holidays help shape their images. That's why George Bush seems so untroubled by criticism of his long vacations: pictures of him doing manly things on his ranch may irritate urban liberals, but they do him no harm in America's heartlands. What message, then, do Mr Blair's travels send?

First, that he is happy to sponge off rich connections. However often Downing Street explains that Mr Blair is making up for getting free accommodation by contributing to charity, voters will remember only that he spent his summer enjoying wealthy people's hospitality.

Second, that he has some odd friends. Not that there's anything morally questionable about Sir Cliff—the problem there is aesthetic. Nor is there anything very wrong in consorting with aristocrats—social climbing is, after all, a natural tendency. But hob-nobbing with Mr Berlusconi, the dodgiest of the rich world's leaders, is another matter. For a prime minister clinging to the moral high ground by his fingernails, he is a curious choice of host.

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Commonwealth soldiers

Tommy foreigner

Aug 12th 2004
From The Economist print edition

The army is increasingly reliant on alien recruits

WHEN Gloria Pobee, a 19-year-old army clerk, joined an infantry unit in the British army last year, the native recruits asked her whether “Africans still lived in trees.” Then they found they needed her to read them their pay-slips. Ms Pobee, who had planned to study medicine, gladly helped her less literate comrades, and the racist slurs subsided.

Years of a tight labour market have made it hard to hire Britons, so, like many other outfits with recruitment difficulties, the army is looking abroad. Ambitious young Commonwealth citizens, attracted by the pay and conditions, as well as the chance of citizenship, are piling in. As a result, the army now has 4,500 such soldiers from 43 countries, including 1,500 Fijians and 750 Jamaicans—twice as many as it had two years ago. If the army's 3,400 Nepalese Gurkhas are included, over 8% of the British army is now foreign. The American armed forces, which operate a similar policy, boast around 38,000 foreigners, or 3% of the total.

Many regiments could not operate without the foreigners. The Staffordshires, for instance, in which Ms Pobee serves, are one of the last county regiments. Despite the manufacturing slump in the West Midlands, from which it hails, it has shrunk well below its traditional strength of 700 men; and but for a recent influx of foreigners it would have been merged with another depleted unit.

The foreigners began arriving in 1999, after army recruiters visited Fiji. The regiment currently stands at 576 soldiers, including 76 from Commonwealth countries. Its 31 Jamaicans, many of whom have relatives in the West Midlands, are its biggest foreign block.

Unlike most British recruits, many foreigners intend to serve for 22 years, the maximum period, to gain the biggest possible pension. That's what Ms Pobee is planning, as are another half dozen soldiers in the regiment from Africa, Fiji and the Caribbean. Ms Pobee opted for the army because she wanted to be financially independent. Corporal Jonathan Werrett, a Zimbabwean computer programmer, earned his stripe after serving for six months, an unusually short time, and vows to be the regiment's first black senior non-commissioned officer.

Some senior officers worry about the foreigners' effect. Not that anybody thinks soldiers who are not defending their homeland are more likely to cut and run at the sound of gunfire. But they suspect that the foreigners might bring about more subtle changes. As they outstay the natives, for instance, they are likely to dominate the ranks of non-commissioned officers; and the traditional battle-scarred, foul-tongued, working-class NCO might fade into history. But that is happening anyway, as technically able soldiers are increasingly promoted over the heads of more experienced warriors.

Some also fear that the aliens will undermine discipline. An officer says that Fijian soldiers who beat their wives are now the commonest offenders in his battalion, and that Jamaicans are too quick to settle their quarrels with knives. Yet, asked whether he would prefer to have foreign recruits or an under-strength unit, he opts, emphatically, for the foreigners. And they bring benefits other than just numbers, too: the army rugby team is now almost entirely Fijian, and much better for it. And the Staffordshire Regiment's canteen serves Caribbean fricassee, which looked a lot tastier to this correspondent than beans and chips.

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Road pricing

The zoney war

Aug 12th 2004
From The Economist print edition

London's mayor wants to expand the congestion charge—eventually

Get article background

TRAFFIC has fallen by 15%, and congestion is down by nearly a third. But the most striking effect of the £5 charge for driving in central London during the working week is that it has made more road-pricing moves politically feasible.

On August 11th the Mayor of London, Ken Livingstone, announced an outline plan for extending the charge zone westwards to Kensington and Chelsea, the richest borough in the capital's centre. That came despite a consultation process in which two-thirds of the 100,000 people who expressed an opinion said they did not want the scheme extended. Made confident by his re-election in June and the popularity of his existing scheme, which 55% of Londoners support, Mr Livingstone said that the opposition to the extension probably did not represent wider opinion.

The real problem is not political, but financial. The existing scheme works because it covers a small, lightly populated but densely travelled area. Fairly few drivers benefit from the residents' discount. Plenty drive into the zone from outside and end up paying. By extending the zone to a large and thickly populated part of west London, many of those advantages will be lost. Many more people will have a residents' discount, enabling them to drive, say, to work in the City without paying any extra.

Even Mr Livingstone's own figures show that the extension would raise congestion in the original zone, by up to 2%. What's more, while the extension would cost £120m to set up, it would, according to the mayor's estimates, raise net revenues by only £10m a year to £100m (compared with the £130m that the original scheme was supposed to bring in). Some even suspect that net revenues would drop.

Against that, the scheme would cut congestion in west London quite substantially, by 10-20% according to the mayor's figures. It would speed up buses and cut pollution.

So Mr Livingstone has left himself plenty of wiggle room. It's not clear exactly how big the new zone will be, or what times of day it will be in force, let alone when it will come in. Originally Mr Livingstone said he wanted to extend the scheme “as soon as possible”. Now 2006 is the provisional date.

This week's announcement, involving a change to the formally published strategy for the capital's public transport, is largely about legal bullet-proofing if the extension ultimately faces a challenge in the courts: Mr Livingstone has to show he's announced things at the right time, and dealt with (or ignored) the public consultation correctly.

But congestion grows willy-nilly, and not according to politicians' convenience. The worst problems now are in the suburbs, where public transport is not the alternative that it is in central London. Some think that it is there, rather than in tweaking the existing scheme in the centre, that Mr Livingstone needs to act urgently.

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Reforming government

Corporate welfare

Aug 12th 2004
From The Economist print edition

The most unloved government ministry faces pruning, or the chop

FEW bits of government attract more scorn than the Department of Trade and Industry (DTI), which employs 10,200 people and spends £4.8 billion a year. The Conservatives this week announced plans to cut 4,000 of its staff. The Liberal Democrats want to abolish it. Even the government wants to slim it.

So how does the DTI pass the time? Day-to-day work is humdrum. This week's achievements included the completion of a successful prosecution of a north London butcher, who had been acting as a company director while bankrupt, and the liberalisation of the newspaper wholesalers' code of practice.

The department's activities divide into bashing business and helping it. Bashing includes supervising the consumer-protection and competition-policy agencies, and interventionist notions such as work-life balance, much liked by the government's trades-union allies, but seen as a skivers' charter by many employers. A lot of the bashing involves Brussels: the department says it challenges European rules that will burden business, on environmental and labour-market standards, for example. Critics say that it enforces them with a zeal that greatly increases the damage to jobs and profits.

Helping business includes some direct grants—supporting Britain's bankrupt nuclear power industry, for example. This week the department also gave £1m of taxpayers' money to encourage mad people to start businesses. About half the budget goes on business-related science, technology, research and development. That's all based on the idea that firms, banks, universities and venture capitalists are too lazy or dim to get together in their own interests, unless subsidised and chivvied by the wise and clear-sighted government.

The Liberal Democrats' economics spokesman, Vincent Cable, wants to abolish the helping functions—“a dated mercantilist concept”, he says. Export credits, for example, are “as silly as import credits”. He wants a small, separate, consumer-protection and competition ministry, with residual industry-related work done by the Treasury.

The Conservatives, more cautiously, promise to review the DTI's functions, and may get rid of some, but not export credits and small-business support. Their industry spokesman, Stephen O'Brien, says “the Lib Dems don't understand that you need a loud and authoritative voice for business at the heart of government.” That smells more of 1970s corporatism than of Thatcherite radicalism.

Business lobby groups certainly like the invitations and freebies that flow from the DTI's glitzy headquarters building. “Businessmen love going there—it's one step away from getting a knighthood,” sniffs Ruth Lea, a former civil servant in the department who now runs the Centre for Policy Studies, a right-wing think-tank.

The government says the department will lose 1,480 jobs by 2008. For the past two years it has been decentralising business advice and other services to regional development agencies. And it has cut nearly 200 schemes aimed at helping businesses to just ten. But, as with other bits of public-sector reform, voters may not be greatly enthused by the difference between a dull and complicated change proposed by the government, and an equally fiddly but more radical one being advocated by the opposition.

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Hospital elections

Searching for a pulse

Aug 12th 2004
From The Economist print edition

Foundation hospitals play midwife to a reluctant electorate

Get article background

BRITAIN'S overly centralised government rarely gives any real power away, so talk from politicians about doing so should be met with a raised eyebrow. In the last few months, though, 240,000 registered voters have had the chance to have a say in how the 20 hospitals with foundation status, which gives them some independence from the government, are run. Another 20 foundation hopefuls are currently recruiting electorates.

Labour has been muttering about “new localism”—giving people more control over how public services are provided—for a while. Tony Blair says that people power should be the guiding principle when reforming the public sector, and this theme will loom large in Labour's manifesto for a third term in government. Thus far there has been little action, so the hospital elections are the first guide to what new localism might look like. How are they working out?

The prognosis is not good. The problems start with the electorate, or rather with the odd way it is selected. Laws setting up foundation hospitals stated that they should have some public representation in addition to patient representatives on their governing boards, partly to sell the policy to wary Labour backbenchers. But hospitals can't just borrow existing local-government electorates because they normally serve areas that cross local-government boundaries. Instead they have had to draw up ad hoc constituencies and register their own voters.

Some of these constituencies are vast. Birmingham Heartlands and Solihull trust, which is registering voters at the moment, serves over 1m people. Contacting all of them would be expensive, so instead the hospital includes some extra forms when writing to patients and advertises on the radio a bit. So far fewer than 4% have registered. The active membership will be smaller, since many are not volunteers but rather former patients who did not get round to opting out. At Guy's and St Thomas's Hospital, where an election was held in April, only 901 people voted from a local population of over half a million.

Given how limited the powers available to members are, it is perhaps surprising that even this many bothered to vote. Members cannot vote directly for the chairman or directors of the hospital; they elect up to a third of the governing board, which typically has 35 members. Though the governors do have the power to appoint auditors and sack hospital managers, it is not yet clear what else they might do. Richard Lewis, a visiting fellow at the King's Fund, which scrutinises the NHS, says that the existing foundation hospitals have spent the last four or five months “trying to establish a role for their governors”. This makes it hard for voters to know what they are voting for.

More voters might come forward if the benefits to patients of more public involvement in running hospitals were clear. But they are doubtful too. An article in the *British Medical Journal* earlier this year said that “although involving patients has contributed to changes in the way services are provided, little convincing evidence exists that these changes have improved quality of care, satisfaction, or health outcomes.” One hospital chairman told *The Economist* that in a meeting with department of health officials a question about the benefits to patients of involving the public met with an awkward silence.

One aim of the government's “new localism” is to compensate for embarrassingly low turnouts in elections for Britain's weak local government. So far, though, the lesson of old localism has not been learnt: a vote without power is unlikely to interest anyone much.

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Social mobility

A select few

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Posh schools are the unlikely promoters of social mobility

ONE of the main justifications for making secondary schools comprehensive was to give more opportunity to working-class children. They, it was argued, got left behind by the old system, which handed the best university places to posh children from independent schools and largely middle-class children from selective grammar schools. A comprehensive state system would offer the lower orders the chances they had been denied.

But an unpublished study from Cambridge suggests that something rather different is happening. The university finds it gets about the same proportion of working-class applicants from independent schools as it does from state ones. In the English department, for example, 3% of applicants from state schools have manual-worker parents; independent schools provide a similar 3% with the same background. In natural sciences, 7% of state-school applicants were working-class; 6% of independent-school applicants were. The study analyses the applicants' success rates, and finds no difference by class or school background: the only thing that counts is academic achievement, says Geoff Parks, the university's head of admissions. That chimes with an earlier study, which showed that nearly half of the 10% of Cambridge undergraduates with working-class backgrounds had been to independent schools.

What's odd about this is that, overall, fee-paying schools educate perhaps one working-class child in a hundred. Of course, such places are good at finding the brightest poor children, giving them scholarships, and educating them, so it is not surprising that they go on to do well. But non-selective state schools, which educate the vast majority of poor children, are still doing remarkably badly in promoting social mobility compared with a much-disliked bunch of posh medieval charities. Eroding the class divide may need more selection, not less.

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Doing business in dangerous places

You don't have to be mad to work here

Aug 12th 2004 | BAGHDAD, JOHANNESBURG, MOSCOW AND LONDON
From The Economist print edition

Reuters

The risks and rewards of the world's most dangerous business opportunities

WHEN, last month, Marsh & McLennan, a huge insurance broker, bought Kroll for $1.9 billion in cash, some gasped at the price. Why so much? Because demand for the sort of services that firms such as Kroll provide—intelligence gathering, investigation and security, especially in nasty parts of the world—is now booming, and Kroll is the brand leader.

Kroll is not alone in making money from dangerous parts of the world. The second-quarter results of Halliburton, a giant, controversial American conglomerate, revealed that work related to Iraq contributed $1.7 billion—around one-third—of the firm's total revenues in that quarter. The revenues of its engineering and construction subsidiary, Kellogg Brown & Root (KBR), were 68% higher than in the same quarter of last year, thanks to government contracts in the Middle East. But 42 of its workers have died so far in Iraq and Kuwait. This week, Pentagon auditors reportedly found that Halliburton had failed to account for 43% of the $4.18 billion that KBR has charged for feeding and housing American troops in Iraq and Kuwait.

Dangerous places can be hugely profitable, as many small mining firms have long known from staking claims to mines in unstable countries and hanging on to them until larger and only slightly less daring businesses buy them out. South African firms are especially deft at judging risks in their continent: MTN, a big telecoms firm, makes almost as much money in Nigeria as in South Africa.

Risk-taking wins markets. Peter Singer of the Brookings Institution has written a book on private military firms. “For firms that are second or third in a market, taking risks is a way to get ahead,” he argues.

Keeping out of trouble

Until the invasion of Iraq, most operations in dangerous places were of two kinds. If a country had oil or minerals, it attracted energy and mining firms; if it had none, aid agencies were often still there. Both bring work for other businesses, such as in telecoms and air transport.

Iraq, and the outsourcing of many support activities once performed by soldiers, has changed things. For a start, the scale there is immense and circumstances are changing constantly. For example, KBR was cooking for 50,000 soldiers a day in June—and 130,000 a day in July. For private security firms, in particular, soaring demand has turned Iraq into a bonanza.

On the other hand, many workers in Iraq have never done business in risky countries before. Heyrick Bond-Gunning left a London job in mergers and acquisitions to set up DHL's Iraq office. He vividly describes how it feels to be thrown in at the deep end in “Baghdad Business School”, a book to be published next month. His initial kit was a satellite phone, a tent, $25,000 in cash and a canary-yellow van with DHL painted on its side. “It was so chaotic that if we had had some plans, they wouldn't have been very useful,” he says now.

Past experience is useful. Among the companies that fly UN staff and oil firms to countries such as Congo, Afghanistan and Sudan are two South African businesses, SAFAIR and National Airways Corporation (NAC), which even runs a commercial air service to Baghdad. It teams inexperienced crew members with experienced ones in dodgy areas. SAFAIR pays great attention to risk assessments and to logistics before flying into a new place. “Africa is not really for sissies,” says Neville Desselss, its manager, helpfully.

Neither company pays its staff a danger bonus. People do the job because it is (usually) more fun than working in an office, and a good way to get flying experience. But many firms (and indeed non-governmental groups) do pay more to staff who work in dangerous places. The typical salary for a KBR truck driver in Iraq, for instance, is around $80,000 a year, more than twice what the job might pay in America. And, unlike soldiers, expats from rich countries are free to leave when things get rough. Surprisingly few do so. Halliburton says that, since the increase in violence last April, less than 1% of its employees in Iraq have asked to go home early.

Managing staff in dangerous places brings special challenges. NAC looks for pilots (mostly South African) who are “not too aggressive, too pumped up”. Richard Fenning, chief operating officer of Control Risks Group, a British business-risk consultancy, employs lots of ex-military folk and ex-journalists (“they are resourceful and self-sufficient,” he says). He finds that people who like working in dangerous places tend to be independent and want to run things their way; that often clashes with an employer's need for tight control, in order to manage the risks to workers.

The most difficult employees to cope with, says Will Geddes, boss of ICP, a London “threat-management” group, are those who want to work in a hostile country in order to boast about it when they get home. Also problematic are staff who go to nasty places without warning their company security department—especially if they are then abducted or locked up.

To reduce such risks to their home-country staff, some operators (including some media groups—see article) employ lots of local staff. Of the Red Cross's 12,000 field workers around the world, for instance, about 10,000 are locals. Hyatt International, boldly building the first new western-run hotel in Kabul, plans to hire locals, partly to keep costs down. In Iraq, some firms have (notoriously) sub-contracted work to firms from third countries. A Saudi sub-contractor employing Bangladeshis may have fewer scruples about their safety than his American contractor would have for his American employees.

On the other hand, it is sometimes easier to find an expat to do a difficult job than a local. Luc Jones, senior manager of Antal International, a recruiting firm, says that a decade ago his company would have been “crawling over broken glass” to find an expat finance manager with a smattering of Russian. Now there are ten such expats for every vacancy, and most firms prefer to recruit Russians. The country has become relatively safe and comfortable to work in. But, where jobs in remote regions such as Sakhalin or northern Siberia are concerned, “it is more difficult to get Muscovites to move out than expats,” he says.

When should a firm pull out of a country? William Day, who has worked for several big aid groups, worries that people on the ground do not notice when things are getting worse. “Visitors arrive and say, ‘Why are you still here?' When the reply is, ‘Don't worry, the shooting always starts at three o'clock,' it may be time to leave. Adrenaline is a very attractive drug.”

The more experienced operators may be the best at knowing when to get out. Ray Ledlie, boss of NAC, pulled the firm out of eastern Congo when fighting erupted there last year. He does not fly into Somalia at all—“a nightmare,” he says—because constantly changing warlords make the country too unstable.

At Kroll, says Alastair Morrison, who chairs the firm's security activities, clients are encouraged to make a

list of steps for deciding when to go. “When this happens, we pack our bags; when that, the plane is on the tarmac.” When the risks are great, having such a plan, and sticking to it, may be the difference between life and death.

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Journalism in dangerous places

Reporting from the edge

Aug 12th 2004
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Media companies are struggling to protect their journalists in Iraq

MORE than any other kind of business, news companies are obliged to send their employees into extreme danger. Since 1994, according to the Committee to Protect Journalists (CPJ), 75 journalists have died in conflicts, and 273 (many of them locals) have been murdered, often as punishment for their stories. In the past 18 months in Iraq alone, 30 journalists have died, along with 11 of their drivers and translators. Reporters in Iraq have themselves become targets to be kidnapped or shot, to a degree not seen in previous conflicts. Another largely new threat is from the American military in Iraq, which has killed 12 media staff accidentally.

Deadliest places
Total number of confirmed deaths of journalists 1994-2004

Algeria	51	India	15
Russia	32	Philippines	15
Colombia	31	Sierra Leone	15
Iraq	31	Brazil	13
Rwanda	16	Afghanistan	11

Source: Committee to Protect Journalists

As a result, Reuters has demanded that the Pentagon investigate incidents of “friendly fire” on its staff. In May, a conference involving 17 media firms and senior Pentagon officials agreed on recommendations designed to stop it happening again. For the first time, the army is now giving weekly security briefings to journalists in Baghdad. Crucially, says one news executive, the Pentagon has changed its initial attitude, which was that all journalists should “embed” with the army to be safe. Reuters is looking into whether it can give transmitters to staff so that they could signal where they are to American commanders. But that could compromise the journalist's role of not being associated with one side in a war, says David Schlesinger, Reuters' global managing editor.

As well as flak jackets, many media firms are sending reporters on “hostile-environment” training courses and even giving them armed guards. But some experienced correspondents reckon that armed guards undermine the old understanding that journalists are neutral, unarmed observers and as such deserve to be left alone. When Khaled Kazziha, a producer for Associated Press TV, came to the end of a stint in Iraq, he planned to leave inconspicuously, dressed as an Arab. Instead, his firm gave him an ex-Royal Marine from a security firm, and an SUV with tinted windows. On the road to Jordan the guard drove into a car from which men were shooting at them. Having earlier assured Mr Kazziha that he was unarmed, the guard ineffectually brandished a pistol. Mr Kazziha recited verses of the Koran over the car's loudspeaker, at which point the attackers left. “I have decided that I drive in future and there will be no weapons,” says Mr Kazziha, who says that he nevertheless greatly appreciates the efforts of the Associated Press to protect him.

One option for media firms in Iraq is to rely on locals rather than to fly in expatriates. But while locals may not be such obvious kidnap targets, they are more likely to be fired on by the American army. The Pentagon dislikes the practice of hiring locals for this reason. On the other side, Iraqis are being killed by their countrymen as punishment for working for western news organisations. Freelance journalists and cameramen of all nationalities are in the worst position, with more to prove than staffers but often lacking training and insurance benefits.

Rivalry between war correspondents probably leads to more deaths than editors insisting on coverage. “If I find that my competitor is not in his room at six in the morning,” says Mr Kazziha, “I get in my car and go to the front-line.” Fortunately for media firms, there is no shortage of people willing to risk their lives to cover wars.

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Nuclear power

Bursting point

Aug 12th 2004 | TOKYO
From The Economist print edition

A new threat to Japan's energy strategy, and the world oil price

THE leak was not radioactive, but the political and economic fallout may be. On August 9th, superheated steam burst through a corroded coolant pipe at a nuclear power plant in Fukui prefecture, killing four people and injuring seven others. Kansai Electric Power Company (Kepco), which owns the plant, has much to answer for, as do its regulators. In late 2002, a scandal at another regional utility, Tokyo Electric Power Company (Tepco), highlighted a reckless attitude towards safety at the nation's nuclear power facilities. Yet little seems to have changed. The pipe that burst this week apparently had not been inspected since the plant was built—in 1976.

As Japan jostles with its neighbours for access to oil and gas, its bureaucrats are keen to use nuclear power as a way to cut reliance on imported fossil fuels. The country already boasts more than 50 nuclear reactors, and the government has pressed ahead for years with a controversial scheme to expand capacity using recycled nuclear fuel. The Kepco accident and other scandals, however, have jeopardised the country's nuclear plans.

This week's accident followed another nuclear-power scandal last month. The Ministry of Economy, Trade and Industry (METI), which regulates the energy sector, admitted that it had covered up a 1994 report on the costs of using recycled fuel to power some reactors. The report said that reprocessing the spent fuel would cost four times as much as simply burying it. So the ministry, which is keen on the reprocessing plan, buried the report instead.

This revelation has infuriated a public that still remembers the power shortages stemming from the previous scandal which forced Tepco to shut down 17 reactors temporarily last summer. This helped to push up world oil prices as other energy sources were sought to replace the lost supply—not something the global economy needs a repeat of just now. That scandal involved safety. METI's regulators, after sitting on the information for over a year, revealed that Tepco had failed for years to report—or fix—cracks in many of its reactors. Some fissures had first been spotted in the 1980s.

Japan's long-term energy strategy—and by extension, the geopolitics of energy in Asia—relies heavily on METI's nuclear plans, which are now under assault from all sides. Internationally, weapons experts worry that reprocessing nuclear fuel increases the risks of proliferation. The public has complained for years about the cost of the scheme, which includes ¥2.1 trillion ($19 billion) for a reprocessing plant that was begun five years ago and is still far from finished. Complaints about the costs have grown louder since the hidden report was revealed last month.

This week's accident has also revived safety fears. Maybe METI's stiff treatment of Tepco last summer persuaded a few voters that the nuclear industry may take safety more seriously than other bits of corporate Japan. Given the litany of safety failures and cover-ups, they certainly needed convincing. But after this week's accident it will take far more than promises or punishments to win them round.

Many Japanese are starting to feel much like that corroded pipe in Fukui: long neglected, worn thin, and steaming mad over the lies and lax standards in the nuclear industry. Much depends on whether they, too, are reaching bursting point.

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The art of the deal

Trumped again

Aug 12th 2004 | NEW YORK
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AP

Bankruptcy as a wealth-creation strategy

IN WHAT would ordinarily be a troubling sign for a self-professed business genius, on August 9th Trump Hotels & Casino Resorts, the eponymous publicly-traded company of Donald Trump, announced its impending bankruptcy. Under a restructuring deal, Mr Trump would have to give up control of not only the management of the company, but also the related use of his name, to Credit Suisse First Boston (CSFB), an investment bank.

A naïve reader might wonder why CSFB, or any other investor, would want to retain the Trump name. After all, this will be the second bankruptcy for Trump Hotels in the past dozen years, suggesting that the failure is due to something other than mere bad luck. Yet the irrepressible Mr Trump, and the brand of Trump, seems to be headed ever upwards, bankruptcy be damned. On September 9th, the second season of Mr Trump's hit television show, “The Apprentice”, will begin, which allows attractive, young, aspiring tycoons to train at the feet of the master, before being told in front of millions of viewers (41.5m at the last count, to be precise) that “you're fired”—for some trivial flaw such as failing to flog lemonade at inflated prices. A million applications to appear on the show were downloaded, says NBC, the lucky network that is screening it. Already, the applications are pouring in to be part of season number three.

Capitalising on this success, “the Donald” has published a new book, “How to Get Rich: Big Deals from the Star of the Apprentice”, and he now claims to be the highest-paid star on prime-time TV—a claim that is impossible to verify. In the coming weeks he plans to unveil a line of executive clothing carrying his name, and he is already selling self-branded bottled water. In September he will receive a $200,000 fee for an appearance at the University of Buffalo, following a vote by the students.

“Anyone who understands the real-estate business understands he failed, but who understands the real-estate business?” says Gregg Slotnick, a commercial real-estate broker in New York. Indeed, the irony of the Trump Hotels bankruptcy is hard to miss. Yet, viewed in another light, it does prove that Mr Trump truly is in a class by himself. After all, anyone can tout the fact that they are a brilliant businessman if their businesses do brilliantly. It takes a true genius to do so, and do so convincingly, when the results say otherwise.

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Advertising

Grey market

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Who will buy Grey Global?

EDWARD MEYER may have waited too long before trying to sell Grey Global, the world's seventh-biggest advertising agency. A year or three ago, as WPP, a British firm, and Interpublic and Omnicom, which are both based in America, snapped up advertising agencies and marketing firms galore, Mr Meyer, Grey's chairman and chief executive, now aged 77, repeatedly rebuffed advances from other firms. After WPP's high-profile acquisition of Cordiant last year, ad-land's mating season calmed down. When Mr Meyer hired Goldman Sachs and J.P. Morgan in June to orchestrate the sale of his New York-based firm, he found much less interest than he might have hoped.

Still, there have been some suitors, mostly from across the Atlantic, which are now in the final stages of their somewhat lacklustre battle for the firm. Grey's main attraction for Europeans is its strong presence in America. As well as Procter & Gamble (P&G), the world's biggest advertiser, Grey's blue-chip clients include Diageo, BAT, GlaxoSmithKline, Mars and Oracle. Its health-care unit and MediaCom, its media-buying arm, are particularly well-regarded. Yet Grey is less efficient than its peers, with average operating profit margins in recent years of 4-6% compared with 13-15% at WPP and Interpublic. In 2003, Grey's staff costs were 66% of its revenues, compared with 57% at WPP.

The potential bidders think they could improve Grey's performance. Another American firm, Bcom3, had much lower profit margins before its takeover in 2002 by Publicis, a French firm that is now the world's fourth-largest advertising and communications group. As Publicis is keen to grow in America, and P&G is a client of both companies, it is an obvious buyer. Yet Maurice Lévy, boss of Publicis, said last month that an offer for all of Grey would not be in the best interests of his company—though he remains interested in buying parts of Grey.

Neither black nor white

Another French advertising firm, Havas, also wants to expand in America, currently one of its weak spots. Badly hit by the industry recession and struggling with non-performing assets, Havas has itself become vulnerable to a takeover bid. Buying Grey would entrench Havas as the fifth-biggest agency, behind Publicis. Alain de Pouzilhac, boss of Havas, is especially keen on merging MediaCom with Havas Media Planning Group, which urgently needs a shot in the arm.

Yet Havas is short of cash. With debts of €642m ($780m) and €566m in convertible bonds due in 2006, the group is financially stretched. Vincent Bolloré, an investor and industrialist, recently provided it with some welcome new capital when he bought 5.1% of Havas shares, but he is likely to oppose a deal that waters down Havas's profits. Mr de Pouzilhac says that Mr Bolloré will be given a say on Grey. They will make up their mind about whether to bid by the end of August.

Havas could finance a takeover of Grey more easily with a partner. It is rumoured to be in talks with various American private-equity firms. One of them, Blackstone, denies talks about joining forces with Havas, but admits to looking at Grey. A takeover of an ad agency would not be a typical deal for Blackstone, or Quadrangle, or Hellman & Friedman or even Kohlberg Kravis Roberts—all private-equity firms that have been mentioned often in connection with Grey. They have generally avoided investing in service businesses because of the relatively high risks involved. “If you lose one client, you can lose 20% of your business,” says one of the private-equity firms.

The most likely buyer of Grey is WPP, in recent years the great consolidator of the industry, led by the irrepressible Sir Martin Sorrell. It bought Young & Rubicam in 2000, trumped Havas in the battle for

Tempus in 2001, and won last year's fight against Publicis for Cordiant. Roughly ten times bigger than Grey, a company valued by analysts at about $1.2 billion, WPP could easily swallow the acquisition. WPP says it is interested in Grey and started its due diligence work two weeks ago.

Yet Grey hardly fits into WPP's long-term strategy, with its focus outside America and on marketing, corporate communications and other non-advertising services. Michael Nathanson of Sanford Bernstein, an investment-research firm, doubts that the deal would improve WPP's business mix. He thinks it would do better to focus on organic growth and on returning money to shareholders. On the other hand, analysts at Merrill Lynch say that WPP can justify buying Grey simply because P&G is such a big client. Maybe that makes sense for WPP. But without an ideal partner available, perhaps Grey should decide to carry on alone.

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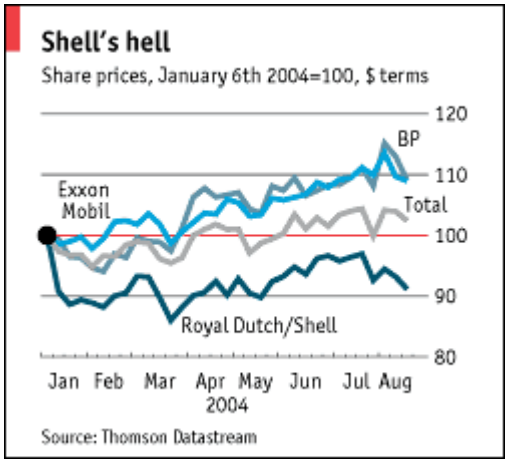
Oil

A buyer for Shell?

Aug 12th 2004
From The Economist print edition

It is time to start thinking the unthinkable



COULD Royal Dutch/Shell become the target of a hostile takeover? The very notion would have seemed ridiculous only a year ago, when Shell was still considered one of the world's best-managed oil companies. But, due to the ongoing scandal over misrepresentation of its proven oil reserves that has already caused heads to roll in the executive suite, Shell's management is under intense pressure to improve. Reports this week that the firm will unify its two boards, and perhaps even formally merge its Dutch and British holding companies, are both a sign of progress and evidence of how desperate those in charge of the business have become.

After all, despite Shell's recent "no fault" settlements with America's Securities and Exchange Commission and Britain's Financial Services Authority, involving a record fine of over $100m, there may be more scandal to come. An investigation into the firm's finances uncovered memos that suggested that men still serving at the very top also knew about the reserves cover-up.

Within the oil industry, the talk increasingly is that Shell's leading-edge technology, well-trained engineers and strong portfolio of long-term hydrocarbon assets would be worth more in the hands of better managers. As Fadel Gheit, an analyst at Oppenheimer, an investment bank, put it in the title of a recent report, "Shell Should Merge with BP: The Mother of All Mergers."

Shell is the only big oil firm to avoid the merger frenzy and subsequent management shake-ups that transformed the industry in recent years. Lord John Browne, for example, has managed to turn BP into a global giant. Given his success in integrating other firms into BP, argues Mr Gheit, he is the right man to turn Shell around: "a merger between BP and Shell would not only create the world's largest energy enterprise, but also the most efficient across almost all business segments."

The trouble is, the antitrust authorities would probably oppose a takeover by BP or, for that matter, Exxon Mobil, the only two energy firms bigger than Shell. However, they would find it harder to stop a merger with another firm, Total. France's national champion is well-run. And its boss, Thierry Desmarest, pulled off France's first big hostile takeover when Total bought Elf. Best of all, his firm (uniquely among top oil firms) has little presence in the crucial American market, which would make it easier to win regulatory approval.

With revenues of over $200 billion a year, Shell is a true giant that will not easily be defeated. Its arcane dual-board structure introduces legal complications that make it a tricky target—though, ironically, this week's news suggests that problem may soon go away. As one big institutional investor in Shell puts it bluntly, "a takeover is possible—and Total is the obvious buyer."

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Marketing

Opportunity knocks

Aug 12th 2004 | MEXICO CITY
From The Economist print edition

Mexican firms are pinning their hopes on America's growing Latino market

WITH around 39m people, Latinos have overtaken African-Americans as the largest ethnic minority in the United States. This has attracted the attention of politicians and academics—such as Samuel Huntington, who fears that traditional American culture is about to be wiped out. But, for the most part, American businesses have been oddly slow to react.

One reason may have been the belief that Latinos were the poorest segment of the population, and so could be safely ignored as consumers—a view increasingly at odds with the data. The Latino population is not only the largest minority, it is also growing by over 3% a year, compared with 0.6% in the rest of the population. Latinos are also getting richer; their income now accounts for about 8% of America's GDP and is expected to reach 10% by 2010.

And the Latino population has other features that ought to make it a marketing-man's dream. It is highly concentrated; around 75% live in just seven states, many in just four counties. And Latinos are the youngest population group in the country, and already a decisive factor in the youth market. In 2002-03, says Nielsen SoundScan, a research firm, 45% of all music sales in America were of Latin music.

Among American firms, only banks seem to have awoken to some of this potential, designing products around the $32 billion of remittances that Latinos send home each year. That has left a huge opportunity for Mexican firms, in particular, to go north to find the growth that eludes them in a stagnant home market.

Some two-thirds of Latinos in America are of Mexican origin, and most studies suggest that, while they may be adopting American values, they also want to keep their Mexican culture as well—making them ideal customers for Mexican firms.

TV Azteca is Mexico's second-biggest producer of television shows. The head of its American arm, Luis Echarte, says that America generates around 10% of group profits, and is rising fast. Like its Mexican rival, Televisa, it makes most of its money in America by selling its popular soap operas, mainly “growing by affiliation” via tie-ins to 33 regional stations in America. Televisa prefers to sell its soaps directly to Univision, an American cable-TV channel that reaches 85% of Latinos in America.

Mr Echarte says that Mexican programme-makers have an edge over their rivals because of the comparatively accentless brand of Spanish that Mexicans speak. America's Latino consumers prefer the accent they have grown up with to the blurred and hissing accents of Iberian Spanish soap-operas. Mexican soccer is also vital to the American expansion strategy of TV Azteca—another product that other countries cannot reproduce.

Mr Echarte has high hopes for advertising revenues. Latinos may account for 8% of America's GDP, but in advertising their market share is still only 2%. That gap will soon close, reckons Mr Echarte.

The Mexican-American population also seems to be happiest with its own brands of food and drink. Maseca has become the Mexican tortilla-maker of choice in America. It now has its biggest factory in Los Angeles. Gigante, a retailer, has opened four supermarkets in the same city. Mexico's biggest brewer, Grupo Modelo, is now the leading beer exporter to America, with brands such as Corona.

Mexican firms seem unlikely to have things all their own way in America for much longer. A few American firms are starting to catch up after their slow start; some of them are hiring Mexican know-how. In April, for example, Meximerica Media, an American Spanish-language newspaper publisher, announced the

launch of a national chain of newspapers for Latinos. The first four appeared in Texas, targeted at Mexicans. The editorial director, Edward Schumacher Matos, is an American-Mexican, with extensive knowledge of the Mexican market.

American firms will surely do what is necessary to gain the right cultural and marketing mix to appeal to Mexicans one day. But Mexican firms will be hoping that they continue to leave it until *mañana*.

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Newspapers

Paper trail

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Newspapers have found a way to increase circulation: fake it

WHEN the *Chicago Sun-Times* disclosed in June that it had overstated its circulation, nobody was all that shocked; the paper was, after all, controlled by Conrad Black, a disgraced newspaper proprietor. But soon afterwards two of the Tribune Company's papers, *Newsday* and *Hoy*, confessed to having done the same. Last week a third American firm, Belo Corporation, said that the *Dallas Morning News* had exaggerated circulation. Advertisers now worry that a big slice of America's print industry may be faking its numbers.

Investigations into what happened are still going on at all three companies. The Tribune Company says that free copies of *Newsday* were wrongly recorded as copies that had been paid for—meaning that circulation was overstated by 7% on the daily edition and by 10% on the Sunday edition. The *Chicago Sun-Times* took advantage of days when it did not have to report circulation—for instance because of a power failure—to conceal newspapers that had been sent back unsold from news-stands.

Now the three firms are working out how much to pay advertisers in compensation. Paul Ginocchio, publishing analyst at Deutsche Bank in New York, reckons that the Tribune Company may have to reimburse as much as $115m.

Advertisers will want to know what happened at the Audit Bureau of Circulations, which is supposed to verify circulation numbers. The bureau has already tightened some of its rules in response. But little can be done about the fact that the bureau has limited resources with which to monitor a vast amount of newspaper sales and deliveries, says Ronald Cote, a forensic accountant with Grant Thornton in Chicago.

Will there be more disclosures? A spokeswoman for the Audit Bureau of Circulations told EditorandPublisher.com this week that the bureau expects more newspapers to come clean about overstatements. With young people ignoring them, circulation falling and classified advertising departing for the internet, newspapers can ill afford a reputation for lying about their own business.

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Face value

Singapore's man with a plan

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Can Philip Yeo reinvent Singapore as a hothouse of innovation?

SINGAPORE, one of the first Asian economies to be called a tiger, is roaring again. In the second quarter of this year its GDP was 12.5% higher than in the same period in 2003—when, admittedly, SARS took its toll on an already lacklustre economy. The government is now forecasting growth this year of up to 9%, perhaps second only to China in Asia. Much of this growth is due to manufacturing exports, above all of pharmaceuticals—second-quarter output of which was 51% higher than a year earlier. Drug-making is the latest industry to blossom thanks to the country's unique cocktail of state planning and capitalism—though some no longer blossom as they once did (see article).

In the past decade, the city-state has turned itself into one of the world's leading pill producers, helped by strong intellectual property laws, an educated workforce and lengthy corporate-tax breaks. Most of the world's leading drug firms make products in Singapore for global consumption. Revenues of $7 billion are expected from biomedicine this year—some 8% of its total manufacturing revenues—and its all-powerful government has ambitious plans to generate $12 billion from the sector by 2010. If that happens, it will ease the pain as jobs in electronics and petrochemicals move to China and other lower-cost neighbours.

The man who is trying to bring about this transformation is Philip Yeo, head of A*Star, a government agency in charge of co-ordinating Singapore's plunge into biomedicine. He also co-chairs the Economic Development Board (having chaired it alone between 1986 and 2001), which is in charge of developing high-value industry in the country. His main challenge is to turn Singapore into a centre of biomedical innovation, moving upstream from merely making drugs to inventing and testing them.

Singapore is a long way from the drugmaking centres of America and Europe. It has little tradition of academic research in biomedicine and few private investors schooled in the risks of biotech. Yet Mr Yeo is undaunted. Singapore itself defies economic logic, he says. “We have no markets, no raw materials. All the industry we've created is illogical. But what choice do we have?” Indeed, Mr Yeo's own career is a tale of moving up the value chain, from manufacturing to more lucrative activities. An engineer, Mr Yeo joined the Ministry of Defence in the 1970s and helped to create what is now called Singapore Technologies Group, turning a struggling maker of bullets and rifles for Singapore's army into an international arms supplier. His interest in electronic warfare led him to the business of semiconductors, which drove Singapore's economy for much of the 1980s. In the early 1990s, he spearheaded Singapore's move from what he calls the “lousy business” of refining crude oil into being a leading producer of petrochemicals. Singapore's lack of land for the facilities required for this was no obstacle to

Mr Yeo, who spent $4 billion to build Jurong Island, a 3,200 hectare offshore chemical complex that produced $22 billion-worth of goods in 2003.

In Singapore, it is often hard to tell where government ends and the private sector begins. Mr Yeo has combined government service with success as an entrepreneur in electronics and the internet. Above all, he says, this experience has taught him to learn enough about a field to identify the best people, then give them the freedom, and the money, to do what needs to be done.

So he is spending a fortune to attract the best in the biomedicine business. The government is investing nearly $2 billion to make Singapore a global centre of excellence in several fields, including cancer and regenerative medicine. The symbol of this goal is Biopolis, a new state-of-the-art campus that clusters five public research institutes—specialising in genomics, nanotech and other cutting-edge disciplines—together with facilities for big drug firms and biotech research. Last month, Novartis moved its new research institute for tropical diseases into Biopolis, attracted to Singapore by its combination of rich-world facilities and proximity to poor-world afflictions, such as malaria and dengue. Eli Lilly has also set up a research centre in Singapore, as have some biotech firms, such as Paradigm Therapeutics, a British drug-discovery company. Singapore is attracting stem-cell firms too, in part thanks to its liberal bioethical regulations.

Go get 'em, tiger

But China, Taiwan, Malaysia and other countries in the region are also laying on mice, money and machines in a bid to strike it rich in biotech. What Mr Yeo hopes will make Singapore different is its characteristic long-term planning and focus on the one detail that can make or break an innovative industry: manpower. Currently, most young Singaporeans aspire to be engineers rather than biomedical researchers. The government is trying to change that, with glitzy advertising campaigns and scholarship programmes. The whole curriculum—from early education to university—is being revamped to promote study of the life sciences. By 2010, Mr Yeo hopes to create 1,000 PhD-qualified researchers from Singapore.

Meanwhile, he spends much of his time on the road, visiting biomedical centres around the world, trying to learn from their mistakes and, above all, finding talent to lure to Singapore. He has recruited as advisers over 20 of the world's leading researchers, including a couple of Nobel laureates, and persuaded several top scientists to set up shop in Singapore, among them Edison Liu, a former top executive of America's National Cancer Institute, by promising them and their teams ample long-term resources and the opportunity to fashion a new institute to their own design. Singapore's authoritarian and traditionally risk-averse culture can deter some people from living there. Mr Yeo has even devised a share-a-scientist programme that allows prominent researchers to keep two labs, one in Singapore and one at home. But will even that be enough to attract the still greater influx of talent needed to keep the tiger roaring?

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Spectrum policy

On the same wavelength

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Governments and industries are bracing themselves for the possibility that radio interference will become a thing of the past

MOST people do not worry much about physics or politics when, for example, they look at the colours of a rainbow. Nor do they pause much when they use a remote control for their TV set, talk on a mobile phone, listen to the radio, cook food in their microwave oven, open their car door from a distance, or surf the internet without wires. Yet these are all phenomena of electromagnetic radiation. How humans harness electromagnetic waves—and specifically those in the radio-frequency part of the spectrum—has become so important that old and new ways of thinking are now lining up for a tense confrontation that will affect numerous businesses and billions of consumers.

The old mindset, supported by over a century of technological experience and 70 years of regulatory habit, views spectrum—the range of frequencies, or wavelengths, at which electromagnetic waves vibrate—as a scarce resource that must be allocated by governments or bought and sold like property. The new school, pointing to cutting-edge technologies, says that spectrum is by nature abundant and that allocating, buying or selling parts of it will one day seem as illogical as, say, apportioning or selling sound waves to people who would like to have a conversation.

The traditional mindsets were colourfully on display this week when full details were announced of a complicated spectrum swap arranged by America's telecom and media regulator, the Federal Communications Commission (FCC). First announced on July 8th, the swap gave Nextel, America's sixth-largest mobile-phone carrier, new slices of spectrum in return for vacating other bands where it was causing interference with the radios of firemen, police and hospital workers. If it wins final approval, the deal will cost Nextel $3.25 billion. It follows years of what Michael Powell, the FCC's chairman, called “ruthless lobbying”. Nextel's rivals threaten to contest the decision, screaming that Nextel got a windfall of public property. Verizon Wireless, America's largest carrier, recently bought another piece of spectrum, in New York, for $930m.

A glimpse of the new mindsets, by contrast, can be had in any Starbucks coffee-shop where patrons connect to the internet through Wi-Fi, a technical standard (officially called 802.11) that does not have a government licence but operates in “unlicensed” bands of spectrum in the 2.4GHz or 5.8GHz range. These are bands which governments have deliberately set aside as, in effect, an experiment for new technologies such as Wi-Fi. Almost anything goes in these bands, and any interference—between Wi-Fi base-stations and cordless phones, say—is for vendors, not the government, to sort out.

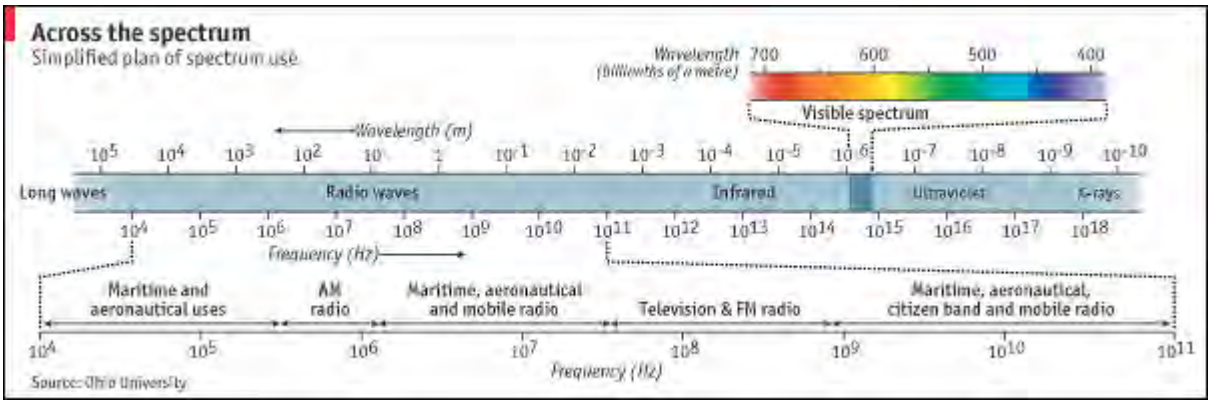
On one side, therefore, are notions of radio frequencies as scarce resources that can be used by only one

transmitter at a time and are worth lobbying and paying billions for; on the other side is the idea that any number of transmitters and receivers can peacefully co-exist on the airwaves and that spectrum should therefore be open to all—not individual property, but rather a commons. To understand this debate, one must look back at history; to understand its importance, at economics.

Slicing up the airwaves

For decades after Guglielmo Marconi invented the radio in 1897, the only way to send multiple radio signals at the same time was by transmitting them at different wavelengths. Radio receivers were dumb devices—copper coils, essentially—and if two signals came in on the same wavelength, the result was noise. So when America passed the Radio Act in 1927 and the Communications Act in 1934, and other countries followed with similar legislation, the reigning wisdom was that governments had to chop up the radio-frequency spectrum and give exclusive privileges in each band to avoid chaos: radio required central planning.

The next major change in this understanding came in 1959, when Ronald Coase, later a Nobel laureate in economics, argued that the market was far better than governments at allocating the scarce resource of electromagnetic spectrum, and that auctioning spectrum to the highest bidder was therefore superior to simply giving licences away. This fitted well with the *Zeitgeist* of the following decades, when economists such as Milton Friedman and Friedrich von Hayek won Nobel prizes for similar arguments in other areas of life. Starting in 1995, governments in America and Europe began selling spectrum by auction. Telecoms companies were the biggest buyers, mortgaging their balance sheets to get airwaves for a new generation of cellular services.



The underlying assumptions about the physics of electromagnetism had not changed, however. Devices were still assumed to be dumb, interference a fact of life and exclusive-usage rights a necessity. The only change is that today most governments run mixed regimes, doling out some licences for free and auctioning others. Not all that mixed, however: auctions account for only 2% of the radio-frequency spectrum (up to 300GHz or so) in America. Central planning, in other words, still accounts for 98% of the usable airwaves. Most of the spectrum is given to television broadcasting, military communications and other forms of dedicated content.

This dispensation represents a huge loss to society. James Snider at the New America Foundation, a think-tank in Washington, DC, estimates that America's airwaves would have been worth $771 billion in 2001 (when he last did the sums) if every licensee were to use his bandwidth for the service in most demand by the public. But licensees do not do this, or cannot because of regulations. This means that about half of the total value of the airwaves is wasted on uneconomic uses—on extra broadcasting capacity, say, instead of more cellular communications.

It would be bad enough if most of the spectrum were being wasted on the wrong uses; in fact, much of it is not being used at all. According to one study, only four of 18 ultra-high frequency TV channels in urban Washington, DC, were actually in use when the study was done. In rural areas, the “white spaces” of fallow spectrum are even more vast. An official at America's National Telecommunications and Information Administration, which manages all the spectrum used by the federal government (as opposed to the FCC, which regulates all other uses), once estimated that 95% of the government's spectrum is not being used at any given time.

Commons, minus the tragedy

The sheer waste of this system—the “opportunity cost” of services and technologies not offered because entrenched interests are squatting on the spectrum—is behind the third major intellectual current, after central planning and property rights, in recent thinking about spectrum. Starting in the 1980s and gathering steam in the 1990s, there have been calls for “open spectrum”, or a spectrum commons. These initially met with scepticism, since economists and most other people are familiar with “the tragedy of the commons”—the idea that a scarce resource will be inefficiently over-exploited (as in the case of over-fishing, the classic instance). For sceptics, the same fate would await the airwaves.

But this is wrong, says Kevin Werbach at the University of Pennsylvania's Wharton business school and founder of Supernova Group, a consultancy. He argues that the assumption that public sharing of spectrum would lead to chaos presumes that spectrum is scarce; but this reflects a flawed understanding of the physics of electromagnetism. A common myth about electromagnetic waves is that they bounce off one another if they meet. They do not. Instead, they travel onwards through other waves forever (even though they eventually attenuate to the point where they become undetectable). Radio interference, in other words, is not a physical phenomenon, but always and only a technological problem, the result of dumb radios and dumb antennae mixing the waves up after receiving them.

If devices are smart enough to distinguish between signals, says Mr Werbach, spectrum suddenly reveals itself to be not scarce, but abundant. Mr Werbach draws an analogy to acoustics. A well-attended cocktail party has a din of many voices speaking at once and on similar frequencies. But it is still possible for party-goers to have conversations and pick out individual voices—ie, sound waves—from the din, because our brains are equipped with powerful software for this task. There is no limitation in the spectrum of sound waves, only in the refinement of the human ear. The same can be true in the electromagnetic spectrum.

There are four broad categories of new technologies that could make this idea a reality. The first is called “spread spectrum”, or “wideband”. As both names imply, this is a way of spreading an electromagnetic signal across wide bands of frequencies at low power, instead of booming a high-power wave through a narrow band. Wi-Fi is one good example of wideband technology—the large range of frequencies and the low power allow it to co-exist with cordless phones and other devices. Hopes are highest, however, for a new technology called “ultra-wideband”, which will communicate by whispering its signals so softly across the frequency bands of other, higher-power transmitters, such as broadcasters, that these will not even notice the presence of another signal.

Another approach is to use “smart” antennae. These are systems of multiple antennae that can “aim” a signal in a particular direction (instead of radiating it out indiscriminately) or pick out a particular signal from background noise by calculating the wave's angle of arrival (for example, from a satellite instead of a source on the ground).

A third technology is “mesh networking”. In a mesh, each receiver of a signal also re-transmits it. Every meshed laptop computer, for instance, in effect becomes a node or router on its network. This has three advantages. One is that, as with spread spectrum, signals can be sent at very low power, since they only have to travel to the next user's node, which will be hundreds of metres, instead of kilometres, away. Another is that each newcomer to the network not only uses, but also adds, capacity. A third is that the network will be robust, since traffic can be re-routed easily if nodes fail, the approach already taken by the internet.

Open-spectrum enthusiasts are most excited, however, about the day when radios become software-powered computers, or so-called “cognitive radios”. This would end the limitations of dumb radios. “Moore's law meets Marconi's transmitter,” says Kevin Kahn, research boss for communications at Intel, the world's largest semiconductor-maker, referring to the prediction, so far correct, by Gordon Moore, one of Intel's founders, that the number of transistors on a chip doubles every 18 months. Radios would double their intelligence every year and a half, in other words. They could learn to hop around on the spectrum to find quiet bands for transmission, to encode digital information in new wave forms, or to analyse incoming noise and pick out only the relevant signal. “Communication is no longer a matter of frequency, but of computation,” says Mr Kahn. In effect, cognitive radios would play the part of human brains at noisy cocktail parties.

Back in the real world

A lot of breakthroughs still need to happen before these technologies become widespread and reliable. Enthusiasts who predicted that there would be Wi-Fi transmitters in every street lamp have backtracked. “Hotspots” are mushrooming, and cities from Montpelier, Vermont, to Hamburg, Germany, are now stringing networks of them into larger “hot zones” that blanket downtown areas and entire neighbourhoods with high-speed internet access, but this seems to be an option only for dense urban areas. Mesh networks, too, are still rare. Police and firemen and other city employees in Medford, Oregon, have this year started using a mesh network to connect to the internet while on the road, but very few ordinary consumers are meshers. Cognitive radios are still in the lab.

Incumbent licence-holders—and above all the telecoms firms that have paid billions in spectrum auctions—naturally use the immaturity of these technologies as their prime argument against a headlong rush away from the property model and towards a commons approach. “Unlicensed spectrum is sounding like crack cocaine: the ultimate high that solves all your problems,” says Brian Fontes, a lobbyist who works for Cingular, America's second-largest mobile-phone company (and the largest once its acquisition of AT&T Wireless, a rival, is complete). But, “prove that you're not going to interfere; I mean prove it, don't just say it,” he insists.

The fact is, Mr Fontes says, that there is still no way to guarantee quality of service in the unlicensed bands. Yet guarantees are needed, if only for security. Such reminders are in the economic interests of Mr Fontes's industry, but that does not make them wrong. Regulators think it would be dangerous simply to embrace open spectrum and unleash a free-for-all. Rather, they see their task as managing spectrum so that it usage remains as efficient as technology allows.

There are several ways to do this without adding new unlicensed bands. One clear and obvious step is to allow “underlay”. This is a way of transmitting signals in somebody else's licensed band, but without disturbing the licence-holder in any way—for the incumbent, a bit like having a bird sitting in your garden. This could help to fill in the huge white spaces of unused spectrum. It could also ease the politics, since it will not be easy to persuade powerful and long-standing licence-holders to vacate their bands. With underlay rights, says Vanu Bose, the boss of Vanu, a firm that designs software-powered radios, “the broadcasters don't even have to get off the spectrum they have now, because they don't use most of it.”

Another good measure for regulators is to make licences more flexible. This is perhaps most urgent in Europe, where the European Commission currently requires telephone operators to use a technology called W-CDMA as they build third-generation (3G) mobile-phone networks. In 2000 the carriers paid more than €100 billion (then $125 billion) for these licences, and are only now rolling out services after experiencing technical flaws. Meanwhile, operators in South Korea, America and Japan have been able to launch 3G services using a rival technology, CDMA2000, that is more mature but is, in effect, banned in Europe. But licence flexibility needs to go even further. Ultimately, a mechanism for licence-holders to trade their rights on a secondary market, similar to a bond or commodity market, could lead to more efficient allocation.

Nonetheless, the share of unlicensed spectrum should rise over time in order to spur innovation. In America, where the FCC has been thinking about the potential of open spectrum since 1981, this idea is no longer controversial. Michael Powell, the FCC's chairman, has said that he would like to see himself more as a speed cop than as a real-estate agent, and makes clear his penchant for unlicensed bands. America's spectrum regulator essentially agrees: the National Telecommunications and Information Administration proposed on June 24th that both it and the FCC identify an additional 10MHz of spectrum for this purpose. The problem, in America as everywhere, is in the politics of choosing someone to evict.

A few pioneers profess indifference to the debate. Dewayne Hendricks, boss of Dandin Group, a wireless internet-access provider, does not care whether governments open up more spectrum because, “all the spectrum we need is already in play.” He has already brought wireless internet to “tall and uncut” places from Tonga to Ulan Bator, and says he is now in talks in Armenia. Most industry participants, however, are keen for more open spectrum. One opportunity that will present itself in many countries is the migration from analogue to digital television, which will reduce the bandwidth needed for traditional free-to-air broadcasters.

The sweet and low down

This is promising because broadcasters inhabit the best kind of spectrum, the equivalent of beachfront property. The lower an electromagnetic wave's frequency the better it is at penetrating rain, trees and

walls, which is why television and FM radio tend to work in the basement, but why Wi-Fi signals have trouble with walls. According to the New America Foundation, the 1% of frequencies below 3GHz are worth more than the other 99% of spectrum between 3GHz and 300GHz.

Even a sliver of new unlicensed spectrum in the very low frequencies could therefore make an enormous difference. It could, for example, make possible a cheap alternative to cable and digital-subscriber line modems (for which roads have to be dug up and trees uprooted) in delivering high-speed internet access across “the last mile” to the consumer.

“Amazing things have been done with Wi-Fi in garbage spectrum,” says Tren Griffin, who is in charge of spectrum matters at Microsoft. “The pregnant question is: what if we took a tiny amount of good spectrum and repurposed it?” It might at last become feasible and economic to begin bridging the world's digital divide. If low-frequency spectrum became free for innovators, then business plans to bring connectivity to villages in India and China, as well as rural Montana, would soon follow. Lives in many places could one day be richer thanks to vibrations in the air.

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Japanese banks

Zombies beware

Aug 12th 2004 | TOKYO
From The Economist print edition

A big merger comes as Japan's banks get tougher on big borrowers

Get article background

HELP is on the way for UFJ, Japan's fourth-biggest lender, but it will have to leave some friends behind. This week, UFJ and other lenders ignored howls from Daiei, a big but troubled retailer, and sought to have Japan's state-run Industrial Revitalisation Corporation (IRC) restructure it. UFJ is also hoping to do the same with Daikyo, a property developer.

UFJ is under fierce pressure from regulators to clean up its balance sheet, hence its willingness to sell out to a stronger bank with more capital. On August 12th, Mitsubishi Tokyo Financial Group announced that it had beaten Sumitomo Mitsui Financial Group for that honour. Bank mergers will do little for Japan's financial system, however, unless they lead to tougher treatment of duff loans to “zombie” firms. So UFJ's handling of two of the biggest is encouraging.

Both Daiei and Daikyo remain hopelessly indebted despite previous bail-outs in the past couple of years. Daiei, Japan's third-largest retailer, has already been bailed out twice, receiving ¥640 billion ($5.1 billion) in 2001 and 2002. Yet it is still saddled with over ¥1 trillion of debt, including ¥400 billion of loans from UFJ, and continues to mismanage an awkward array of businesses—from a baseball team to restaurants—that it probably should not be in. On August 10th, UFJ and two other lenders said that they would ignore an unconvincing restructuring plan that Daiei's management had proposed. The banks now want the IRC, which was set up last year to take salvageable companies off banks' books, to get involved.

The banks are considering waiving ¥300 billion-400 billion of Daiei's debts, and raising another ¥300 billion or so by unloading non-core assets through the IRC. They want it to concentrate on running supermarkets, and sell the rest. Since Daiei has become a poster child for Japanese companies' habit of putting off restructuring, any overhaul along these lines would be viewed as progress.

Daikyo, which builds apartments, is also in way over its head. Despite a ¥470 billion bail-out in 2002, it still has nearly ¥500 billion of debt, including loans of around ¥300 billion from UFJ. The company is also sitting on roughly ¥100 billion of unrealised losses from falling property prices, which it will have to value properly when new accounting rules take effect next spring. Mori Trust, a big property developer that has a joint venture with Daikyo and co-operated with it on other deals, said this week that it would consider offering support as part of any IRC overhaul.

Since this is Japan, any restructuring of the two debtors is unlikely to be a model of business efficiency. Earlier this year, for example, the IRC helped restructure Kanebo, a consumer-goods firm, even though an industry rival, Kao, had already offered a sensible merger plan. Yet while Kanebo preferred the more toothless state-run outfit, its restructuring, and those of others like it, was nevertheless painful enough to make Daiei and Daikyo fear the IRC. If a combination of tougher inspections by regulators and fresh capital from a merger partner leads UFJ to get tough on these and other borrowers, it will mark huge progress by Japan's worst-managed big bank. What the government should do next is use the same combination—tougher inspections and judicious use of fresh capital—to sort out Japan's long-struggling regional banks.

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Hermes

Glass houses

Aug 12th 2004
From The Economist print edition

Red faces at an activist fund

BOSSES of many a big company could be forgiven a touch of *Schadenfreude* this week after two of the founders of Hermes Focus Asset Management resigned in a huff on August 10th. The £1 billion ($1.8 billion) fund, which was set up in 1998 by Hermes, a big British pension manager, is a shareholder-activist fund, and makes money by investing in laggard companies and advising them (often not so gently) on how the management of their companies should be sharpened up.

But it seems as though Hermes itself could have done with a little corporate-governance advice. Quite how much is, however, a moot point. Hermes is remaining tight-lipped about its internal conflict and refers questions to its public-relations folk. The spat seems to have been about ownership, pay packages and strategy. If this had happened to another fund-management firm, you can't help feeling, Hermes would have had something scathing to say both about how disgraceful it was that disagreements were allowed to boil over in this way, and about the cack-handed fashion in which the City had learned the news.

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The Olympics

Athenian maths

Aug 12th 2004
From The Economist print edition

Economists predict the medal tally

THEY have a dismal track record when it comes to predicting economic growth, exchange rates or the direction of the stockmarket. So you might have expected economists to despair at the thought of forecasting sports results. Not at all. Efforts to work out the number of medals which countries are likely to get in the Athens Olympics, which start on August 13th, are well under way.

Two economists, Andrew Bernard of the Tuck School of Business, and Meghan Busse of the Haas School of Business, accurately predicted the number of medals that American athletes would take home in the Sydney games four years ago (97), as well as the number of gold medals (39). For nine other countries, they were only one medal out. Whether luck played its part (and the effects of a growing transfer market, (see article) can be tested: the two recently published their predictions for the Athens games. They think that America will get 93 medals.

Their predictions rely entirely on totting up economic statistics. Two are key: population and wealth. More people means a higher chance of producing a top triple jumper. And the higher a country's income, the better the odds that a synchronised swimmer, say, will receive the training and facilities needed to compete with the world's best. Hosting the games also gives a boost to the medal tally, not least because of the support of local fans. The two economists expect Greece to more than double the number of medals that it wins compared with four years ago.

For those inclined to ponder such things, instead of marvelling at the skills in beach volleyball or rhythmic gymnastics, the Athens games also help undermine the notion of a widening gap between rich and poor countries. The share of medals won by the biggest and richest countries has been shrinking over the past 40 years. In 1960, the top ten medal-winning countries won 78% of the total medals, compared with 55% in 2000. Although they are tipping America to win the most medals in Athens, the two economists expect America's harvest of medals to decline this year for the third games in a row.

Poor countries are winning more often for two reasons. First, they are becoming richer in absolute terms, even if they are not always keeping pace with growth in the North. Second, they often have rapidly growing populations. And whatever their predictive success, economists win because, by doing such exercises, they can demonstrate to a sceptical world that, hey, economists are fun.

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African scams

Go south, con man

Aug 12th 2004 | JOHANNESBURG
From The Economist print edition

Why Nigerian fraudsters now like working in South Africa

“YOU want rubies! We can do business!” The anonymous caller promised a lucrative deal over the phone: stump up dollars in advance and he would produce a glittering hoard in Johannesburg. But your correspondent refused; so the caller instead produced some colourful abuse, sneered at British sexual prowess, and hung up.

It is rare for an attempted African scam to be executed so inelegantly. Advance-fee frauds often lure victims to part with tens of thousands of dollars on the promise of huge, but somehow plausible, later gains. Nigerians, especially, are renowned for elaborate and persuasive tales: my uncle the president died leaving me millions to smuggle to your country; let me use your bank account to hide the cash and you will get a slice; oh, and pay me a few thousand dollars in advance for handling fees.

But Nigerian fraudsters are becoming too well known. Their ruse is famed world-wide as the 419, after the Nigerian legal code it broke. Nigeria's government now has an agency—the Economic and Financial Crimes Commission—to fight them. Though underfunded, it claims the arrest of hundreds of con-artists and the recovery of hundreds of millions of dollars in just two years. A trial is underway in Nigeria of three people accused of cheating a bank in Brazil of nearly $250m. The bank has subsequently gone bust.

Would-be victims are learning that dubious deals from Nigeria are not to be trusted. The answer: outsourcing. South Africa's intelligence authorities report a flourishing industry of advance-fee scams, mostly carried out by illegal Nigerian migrants. Last year foreigners in the country reportedly lost more than 100m rand ($13m) in such scams; the real figure is likely to be much higher since many victims are too embarrassed to tell. One recent ploy promised millions of dollars would be smuggled from white farmers in Zimbabwe in return for a fee. Some 250 have already been arrested for this scam.

South Africa is popular with scammers because it is a business hub, the flow of foreign currency is large and fast, and—until now—it was not tainted by 419 con-men. But Nigeria's president, Olusegun Obasanjo, has called the frauds a “great embarrassment” to his country. A bigger cost is that outsiders have become warier than they otherwise were of doing legitimate business. South Africa be warned.

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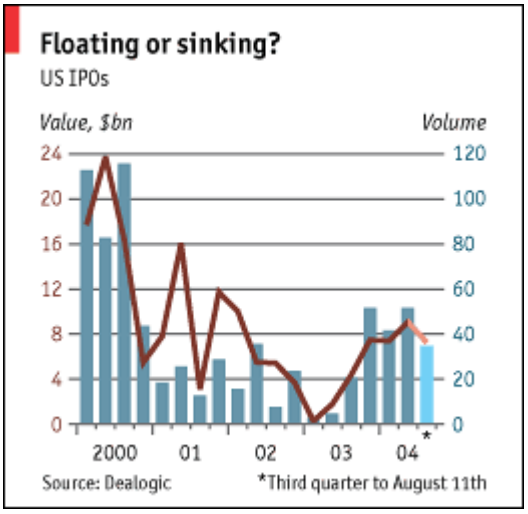
Initial public offerings

Fear of floating

Aug 12th 2004
From The Economist print edition

The IPO market loses steam



THIS was supposed to have been the summer of investor love for initial public offerings (IPOs). Google, a decidedly new-age internet search-engine company, was slated to offer shares at a price that would put its capitalisation into the tens of billions using a newfangled auction to allocate shares. As other technology start-ups followed on Google's coat-tails, bankers and venture capitalists expected a return of *fin de siècle* riches.

Sadly, however, their dreams of a new beach house in the Hamptons may have to wait. The IPO market is looking rather tired. Although Google's IPO is still scheduled to proceed in the near future, a number of problems have led to delay. Its rich price—probably above $100 a share—has put off individual punters. Along with institutional investors, they may also have been put off by its Dutch-style auction for pricing shares. In such an auction, would-be buyers submit bids online, but they cannot be sure how many shares they will get, if any, or at what price. In addition, the firm failed properly to register some of the shares it has handed out to employees and contractors. As a result, Google has had to rely more than it wanted to on the bankers it was so keen to avoid.

But the problems in the IPO market run deeper than Google. Technology shares are not as popular as they were earlier in the year, in part because technology spending is not as robust as many had hoped: on August 11th Cisco became the latest technology firm to announce a disappointing sales outlook. Since its peak in April, NASDAQ, which is full of technology stocks, has dropped by 16%.

Small wonder that many firms are struggling to come to market. Nanosys, a nano-technology firm, which was to be the first flotation in that nascent sector, was withdrawn on August 4th. Bankers at Merrill Lynch, which was to have led the issue, are no doubt smarting over the millions they stood to take. But given recent jitters, the standard bankers' excuse of “adverse market conditions” has more truth to it than it usually does.

Tech companies are not the only ones to be suffering: worries about economic growth have cast a pall over the broader market. Most IPOs this year have fared poorly. According to Dealogic, a research firm, IPOs in America this year have fallen on average by 4% since they were issued. The number of new offerings has fallen sharply in the past few weeks. Those that managed to float were the lucky ones. The number of withdrawn or postponed offerings—companies which registered to float but failed to do so—soared to 15 in July, the biggest monthly total since 2001.

Stockmarkets may, of course, recover and new issues with them. But perhaps investors are starting to realise that the investment banks which issue the shares are trying to raise as much money for the companies as possible while at the same time putting investors into the best investments. The two tasks would appear to be mutually exclusive. For that reason alone, it would be nice if Google's auction succeeded better than it seems likely to.

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Equity research

Independence day

Aug 12th 2004
From The Economist print edition

A Nordic bank hands its equity research to a ratings agency

AS ONE, the 650 analysts around the world covering the 200 or so Nordic stocks agree on the importance of concentrating on core businesses. One bank has listened, sacked its analysts, and outsourced its research—the first time, though probably not the last, that this has been done. Nordea, a Nordic financial group, will outsource all basic equity research to Standard & Poor's (S&P), a ratings firm, from September 1st. This includes the 200 Nordic companies that will now be researched by S&P from a new Stockholm office set up specifically for the purpose. The bank itself will now concentrate solely on investment strategy.

Banks have been pondering long and hard about what to do with their research departments after their practices were found wanting by Eliot Spitzer, the energetic New York attorney general, a couple of years ago. Most of the biggest banks came to a “global settlement” with American regulators in April last year, in which they forked out $1.4 billion in fines, $433m of which would be spent on providing research from independent analysts; and promised to eliminate the conflicts of interest that had bedevilled analysts' research and so riled Mr Spitzer. The snag is that it is unclear whether analysts are worth keeping at all without such conflicts. Hence the soul-searching and scaling back of research departments.

Nordea says the outsourcing will improve both the quality and credibility of its advice. Strategists and sector specialists will be able to concentrate on crafting investment strategies. And there will no longer be any suggestion that analysts' recommendations are influenced by traders, or by corporate financiers anxious not to offend present or putative clients.

Frans Lindelöw, head of equities at Nordea, calls it a “back to the future” strategy. “We want to return to an age when recommendations actually meant something,” says Mr Lindelöw. Besides a fixed fee for each company it tracks, a “significant” proportion of the money that S&P receives from Nordea will depend on how well its team predicts stock movements. John Romeo, of Mercer Oliver Wyman, a consultancy, calls this “quite a radical move”. For Nordea's clients, presumably a welcome one, too—though they have been unwilling in the past to pay more for independent research.

S&P says that it is in discussions with a dozen or so other banks, some of them big ones, about arranging a similar scheme. But while smaller financial companies may well follow Nordea because their size means research costs often outweigh the revenues, research departments at big investment banks tend to be profitable, says Mr Romeo, so they are unlikely to be eliminated altogether. They have already been cut savagely. And banks might, moreover, think it worthwhile to keep research departments, even when they are unprofitable, so that clients carry on trading with them. That is, after all, what the business is all about.

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Economics focus

The evolution of everyday life

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Co-operation has brought the human race a long way in a staggeringly short time

"OUR everyday life is much stranger than we imagine, and rests on fragile foundations." This is the intriguing first sentence of a very unusual new book about economics, and much else besides: "The Company of Strangers", by Paul Seabright, a professor of economics at the University of Toulouse. (The book is published by Princeton University Press.) Why is everyday life so strange? Because, explains Mr Seabright, it is so much at odds with what would have seemed, as recently as 10,000 years ago, our evolutionary destiny. It was only then that "one of the most aggressive and elusive bandit species in the entire animal kingdom" decided to settle down. In no more than the blink of an eye, in evolutionary time, these suspicious and untrusting creatures, these "shy, murderous apes", developed co-operative networks of staggering scope and complexity—networks that rely on trust among strangers. When you come to think about it, it was an extraordinarily improbable outcome.

The genetic inheritance of *Homo sapiens sapiens*, which evolved during the 7m years or so that separate us from our last common ancestor with chimpanzees and bonobos, equipped man to succeed as a hunter-gatherer. Humans co-operated with each other in hunting and fighting, but this co-operation occurred within groups of close relatives. Human evolution favoured caution and mistrust, so far as strangers were concerned. Yet modern man engages in the sharing of tasks and in an extremely elaborate division of labour with strangers—that is, with genetically unrelated members of his species. Other animals (such as bees) divide tasks in a complex way among members of the group, but the work is kept within the family. Co-operation of a sort among different animal species is also quite common, though not very surprising, since members of different species are not generally competing with each other for food, still less for sexual partners. Elaborate co-operation outside the family, but within the same species, is confined to humans.

The requirements for such co-operation, and hence for modern economic life, which is founded on specialisation and an infinitely elaborated division of labour, are more demanding than you might suppose. It is not enough to say that specialisation and the division of labour yield enormous economic benefits. Co-operation would nonetheless quickly break down if individuals could enjoy the advantages of division of labour without making a contribution of their own. Two traits were needed, says Mr Seabright, to bring the fruits of co-operation within reach, and evolution had equipped humans with both—accidentally, as it were. The first was an intellectual capacity for rational calculation. The second, somewhat at odds with the first, was an instinct for reciprocity—a tendency to repay kindness with kindness and betrayal with revenge, even when rational calculation might seem to advise against it.

Neither of these tendencies could support co-operation without the other, and the balance between the two is delicate. Calculation without reciprocity often favours cheating: this undermines trust, so co-operation either cannot get started or quickly breaks down. On the other hand, reciprocity without calculation exposes people to exploitation by others. Again, fear of exploitation inhibits co-operation. For specialisation and division of labour to get going, one needs both instincts, each pushing against the other, so that cheating and free-riding are both kept in check. This balance was probably needed for the development of social life, Mr Seabright notes, even before our ancestors embarked on complex co-operation with strangers. Given those dispositions, however, co-operation with strangers—and modern economic life—became possible.

The human capacity for calculation allowed this potential to be fully exploited because humans were able to design rules and institutions that, as Mr Seabright puts it, "make reciprocity go a long way". Much of the book is concerned with the trust-enhancing character of economic institutions such as money. Building on humans' inherited instincts, these rules and institutions allow people to treat strangers as "honorary friends".

Adam Smith, meet Charles Darwin

The fact that things could have turned out so differently makes the modern global economy, with all its awesome productivity, seem even more miraculous. But, having convinced readers on that point, “The Company of Strangers” dispels any complacency by drawing attention to less appealing aspects of the human enterprise. One such is pollution. Markets can be harnessed to provide information about how best to deal with pollution and other externalities—the phenomenal information-processing power of the price mechanism is another unintended (and marvellous) consequence of extended economic co-operation. But sometimes markets cannot co-ordinate activities effectively. That, after all, is why firms exist: in some cases (and the book considers the conditions under which this is true), information can be more usefully processed in-house, in a non-market setting. This is a different kind of co-operation.

And co-operation itself is two-edged—because it also makes possible the most successful acts of aggression between one group and another. “Like chimpanzees, though with more deadly refinement, human beings are distinguished by their ability to harness the virtues of altruism and solidarity, and the skills of rational reflection, to the end of making brutal and efficient warfare against rival groups.” This is what makes our everyday life fragile, as well as surprising. Curbing this tendency for conflict, Mr Seabright argues, requires, among other things, better-designed international rules and institutions, so that nations, no less than individuals, can regard each other as honorary friends. “Trust between groups needs as much human ingenuity as trust between individuals.”

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Spectrum policy

On the same wavelength

Aug 12th 2004 | SAN FRANCISCO
From The Economist print edition

Governments and industries are bracing themselves for the possibility that radio interference will become a thing of the past

MOST people do not worry much about physics or politics when, for example, they look at the colours of a rainbow. Nor do they pause much when they use a remote control for their TV set, talk on a mobile phone, listen to the radio, cook food in their microwave oven, open their car door from a distance, or surf the internet without wires. Yet these are all phenomena of electromagnetic radiation. How humans harness electromagnetic waves—and specifically those in the radio-frequency part of the spectrum—has become so important that old and new ways of thinking are now lining up for a tense confrontation that will affect numerous businesses and billions of consumers.

The old mindset, supported by over a century of technological experience and 70 years of regulatory habit, views spectrum—the range of frequencies, or wavelengths, at which electromagnetic waves vibrate—as a scarce resource that must be allocated by governments or bought and sold like property. The new school, pointing to cutting-edge technologies, says that spectrum is by nature abundant and that allocating, buying or selling parts of it will one day seem as illogical as, say, apportioning or selling sound waves to people who would like to have a conversation.

The traditional mindsets were colourfully on display this week when full details were announced of a complicated spectrum swap arranged by America's telecom and media regulator, the Federal Communications Commission (FCC). First announced on July 8th, the swap gave Nextel, America's sixth-largest mobile-phone carrier, new slices of spectrum in return for vacating other bands where it was causing interference with the radios of firemen, police and hospital workers. If it wins final approval, the deal will cost Nextel $3.25 billion. It follows years of what Michael Powell, the FCC's chairman, called “ruthless lobbying”. Nextel's rivals threaten to contest the decision, screaming that Nextel got a windfall of public property. Verizon Wireless, America's largest carrier, recently bought another piece of spectrum, in New York, for $930m.

A glimpse of the new mindsets, by contrast, can be had in any Starbucks coffee-shop where patrons connect to the internet through Wi-Fi, a technical standard (officially called 802.11) that does not have a government licence but operates in “unlicensed” bands of spectrum in the 2.4GHz or 5.8GHz range. These are bands which governments have deliberately set aside as, in effect, an experiment for new technologies such as Wi-Fi. Almost anything goes in these bands, and any interference—between Wi-Fi base-stations and cordless phones, say—is for vendors, not the government, to sort out.

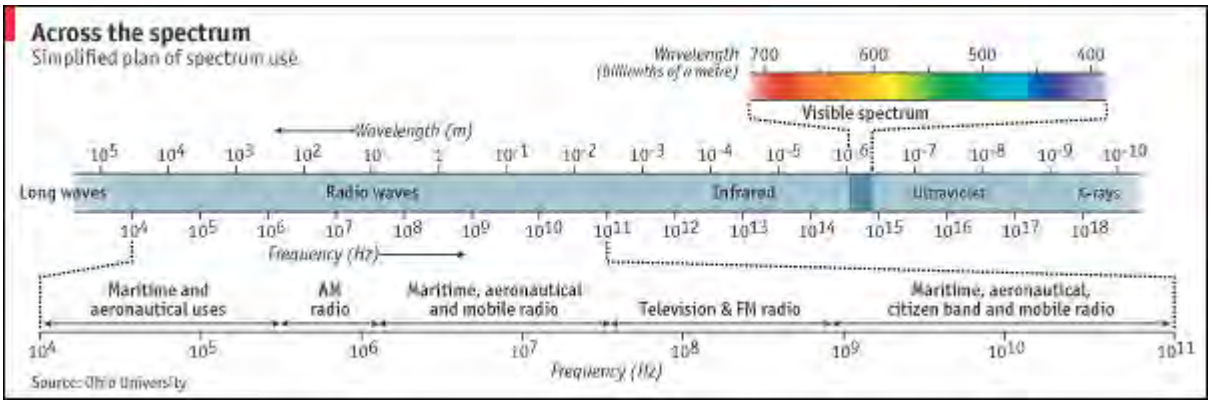
On one side, therefore, are notions of radio frequencies as scarce resources that can be used by only one

transmitter at a time and are worth lobbying and paying billions for; on the other side is the idea that any number of transmitters and receivers can peacefully co-exist on the airwaves and that spectrum should therefore be open to all—not individual property, but rather a commons. To understand this debate, one must look back at history; to understand its importance, at economics.

Slicing up the airwaves

For decades after Guglielmo Marconi invented the radio in 1897, the only way to send multiple radio signals at the same time was by transmitting them at different wavelengths. Radio receivers were dumb devices—copper coils, essentially—and if two signals came in on the same wavelength, the result was noise. So when America passed the Radio Act in 1927 and the Communications Act in 1934, and other countries followed with similar legislation, the reigning wisdom was that governments had to chop up the radio-frequency spectrum and give exclusive privileges in each band to avoid chaos: radio required central planning.

The next major change in this understanding came in 1959, when Ronald Coase, later a Nobel laureate in economics, argued that the market was far better than governments at allocating the scarce resource of electromagnetic spectrum, and that auctioning spectrum to the highest bidder was therefore superior to simply giving licences away. This fitted well with the *Zeitgeist* of the following decades, when economists such as Milton Friedman and Friedrich von Hayek won Nobel prizes for similar arguments in other areas of life. Starting in 1995, governments in America and Europe began selling spectrum by auction. Telecoms companies were the biggest buyers, mortgaging their balance sheets to get airwaves for a new generation of cellular services.



The underlying assumptions about the physics of electromagnetism had not changed, however. Devices were still assumed to be dumb, interference a fact of life and exclusive-usage rights a necessity. The only change is that today most governments run mixed regimes, doling out some licences for free and auctioning others. Not all that mixed, however: auctions account for only 2% of the radio-frequency spectrum (up to 300GHz or so) in America. Central planning, in other words, still accounts for 98% of the usable airwaves. Most of the spectrum is given to television broadcasting, military communications and other forms of dedicated content.

This dispensation represents a huge loss to society. James Snider at the New America Foundation, a think-tank in Washington, DC, estimates that America's airwaves would have been worth $771 billion in 2001 (when he last did the sums) if every licensee were to use his bandwidth for the service in most demand by the public. But licensees do not do this, or cannot because of regulations. This means that about half of the total value of the airwaves is wasted on uneconomic uses—on extra broadcasting capacity, say, instead of more cellular communications.

It would be bad enough if most of the spectrum were being wasted on the wrong uses; in fact, much of it is not being used at all. According to one study, only four of 18 ultra-high frequency TV channels in urban Washington, DC, were actually in use when the study was done. In rural areas, the “white spaces” of fallow spectrum are even more vast. An official at America's National Telecommunications and Information Administration, which manages all the spectrum used by the federal government (as opposed to the FCC, which regulates all other uses), once estimated that 95% of the government's spectrum is not being used at any given time.

Commons, minus the tragedy

The sheer waste of this system—the “opportunity cost” of services and technologies not offered because entrenched interests are squatting on the spectrum—is behind the third major intellectual current, after central planning and property rights, in recent thinking about spectrum. Starting in the 1980s and gathering steam in the 1990s, there have been calls for “open spectrum”, or a spectrum commons. These initially met with scepticism, since economists and most other people are familiar with “the tragedy of the commons”—the idea that a scarce resource will be inefficiently over-exploited (as in the case of over-fishing, the classic instance). For sceptics, the same fate would await the airwaves.

But this is wrong, says Kevin Werbach at the University of Pennsylvania's Wharton business school and founder of Supernova Group, a consultancy. He argues that the assumption that public sharing of spectrum would lead to chaos presumes that spectrum is scarce; but this reflects a flawed understanding of the physics of electromagnetism. A common myth about electromagnetic waves is that they bounce off one another if they meet. They do not. Instead, they travel onwards through other waves forever (even though they eventually attenuate to the point where they become undetectable). Radio interference, in other words, is not a physical phenomenon, but always and only a technological problem, the result of dumb radios and dumb antennae mixing the waves up after receiving them.

If devices are smart enough to distinguish between signals, says Mr Werbach, spectrum suddenly reveals itself to be not scarce, but abundant. Mr Werbach draws an analogy to acoustics. A well-attended cocktail party has a din of many voices speaking at once and on similar frequencies. But it is still possible for party-goers to have conversations and pick out individual voices—ie, sound waves—from the din, because our brains are equipped with powerful software for this task. There is no limitation in the spectrum of sound waves, only in the refinement of the human ear. The same can be true in the electromagnetic spectrum.

There are four broad categories of new technologies that could make this idea a reality. The first is called “spread spectrum”, or “wideband”. As both names imply, this is a way of spreading an electromagnetic signal across wide bands of frequencies at low power, instead of booming a high-power wave through a narrow band. Wi-Fi is one good example of wideband technology—the large range of frequencies and the low power allow it to co-exist with cordless phones and other devices. Hopes are highest, however, for a new technology called “ultra-wideband”, which will communicate by whispering its signals so softly across the frequency bands of other, higher-power transmitters, such as broadcasters, that these will not even notice the presence of another signal.

Another approach is to use “smart” antennae. These are systems of multiple antennae that can “aim” a signal in a particular direction (instead of radiating it out indiscriminately) or pick out a particular signal from background noise by calculating the wave's angle of arrival (for example, from a satellite instead of a source on the ground).

A third technology is “mesh networking”. In a mesh, each receiver of a signal also re-transmits it. Every meshed laptop computer, for instance, in effect becomes a node or router on its network. This has three advantages. One is that, as with spread spectrum, signals can be sent at very low power, since they only have to travel to the next user's node, which will be hundreds of metres, instead of kilometres, away. Another is that each newcomer to the network not only uses, but also adds, capacity. A third is that the network will be robust, since traffic can be re-routed easily if nodes fail, the approach already taken by the internet.

Open-spectrum enthusiasts are most excited, however, about the day when radios become software-powered computers, or so-called “cognitive radios”. This would end the limitations of dumb radios. “Moore's law meets Marconi's transmitter,” says Kevin Kahn, research boss for communications at Intel, the world's largest semiconductor-maker, referring to the prediction, so far correct, by Gordon Moore, one of Intel's founders, that the number of transistors on a chip doubles every 18 months. Radios would double their intelligence every year and a half, in other words. They could learn to hop around on the spectrum to find quiet bands for transmission, to encode digital information in new wave forms, or to analyse incoming noise and pick out only the relevant signal. “Communication is no longer a matter of frequency, but of computation,” says Mr Kahn. In effect, cognitive radios would play the part of human brains at noisy cocktail parties.

Back in the real world

A lot of breakthroughs still need to happen before these technologies become widespread and reliable. Enthusiasts who predicted that there would be Wi-Fi transmitters in every street lamp have backtracked. “Hotspots” are mushrooming, and cities from Montpelier, Vermont, to Hamburg, Germany, are now stringing networks of them into larger “hot zones” that blanket downtown areas and entire neighbourhoods with high-speed internet access, but this seems to be an option only for dense urban areas. Mesh networks, too, are still rare. Police and firemen and other city employees in Medford, Oregon, have this year started using a mesh network to connect to the internet while on the road, but very few ordinary consumers are meshers. Cognitive radios are still in the lab.

Incumbent licence-holders—and above all the telecoms firms that have paid billions in spectrum auctions—naturally use the immaturity of these technologies as their prime argument against a headlong rush away from the property model and towards a commons approach. “Unlicensed spectrum is sounding like crack cocaine: the ultimate high that solves all your problems,” says Brian Fontes, a lobbyist who works for Cingular, America's second-largest mobile-phone company (and the largest once its acquisition of AT&T Wireless, a rival, is complete). But, “prove that you're not going to interfere; I mean prove it, don't just say it,” he insists.

The fact is, Mr Fontes says, that there is still no way to guarantee quality of service in the unlicensed bands. Yet guarantees are needed, if only for security. Such reminders are in the economic interests of Mr Fontes's industry, but that does not make them wrong. Regulators think it would be dangerous simply to embrace open spectrum and unleash a free-for-all. Rather, they see their task as managing spectrum so that it usage remains as efficient as technology allows.

There are several ways to do this without adding new unlicensed bands. One clear and obvious step is to allow “underlay”. This is a way of transmitting signals in somebody else's licensed band, but without disturbing the licence-holder in any way—for the incumbent, a bit like having a bird sitting in your garden. This could help to fill in the huge white spaces of unused spectrum. It could also ease the politics, since it will not be easy to persuade powerful and long-standing licence-holders to vacate their bands. With underlay rights, says Vanu Bose, the boss of Vanu, a firm that designs software-powered radios, “the broadcasters don't even have to get off the spectrum they have now, because they don't use most of it.”

Another good measure for regulators is to make licences more flexible. This is perhaps most urgent in Europe, where the European Commission currently requires telephone operators to use a technology called W-CDMA as they build third-generation (3G) mobile-phone networks. In 2000 the carriers paid more than €100 billion (then $125 billion) for these licences, and are only now rolling out services after experiencing technical flaws. Meanwhile, operators in South Korea, America and Japan have been able to launch 3G services using a rival technology, CDMA2000, that is more mature but is, in effect, banned in Europe. But licence flexibility needs to go even further. Ultimately, a mechanism for licence-holders to trade their rights on a secondary market, similar to a bond or commodity market, could lead to more efficient allocation.

Nonetheless, the share of unlicensed spectrum should rise over time in order to spur innovation. In America, where the FCC has been thinking about the potential of open spectrum since 1981, this idea is no longer controversial. Michael Powell, the FCC's chairman, has said that he would like to see himself more as a speed cop than as a real-estate agent, and makes clear his penchant for unlicensed bands. America's spectrum regulator essentially agrees: the National Telecommunications and Information Administration proposed on June 24th that both it and the FCC identify an additional 10MHz of spectrum for this purpose. The problem, in America as everywhere, is in the politics of choosing someone to evict.

A few pioneers profess indifference to the debate. Dewayne Hendricks, boss of Dandin Group, a wireless internet-access provider, does not care whether governments open up more spectrum because, “all the spectrum we need is already in play.” He has already brought wireless internet to “tall and uncut” places from Tonga to Ulan Bator, and says he is now in talks in Armenia. Most industry participants, however, are keen for more open spectrum. One opportunity that will present itself in many countries is the migration from analogue to digital television, which will reduce the bandwidth needed for traditional free-to-air broadcasters.

The sweet and low down

This is promising because broadcasters inhabit the best kind of spectrum, the equivalent of beachfront property. The lower an electromagnetic wave's frequency the better it is at penetrating rain, trees and

walls, which is why television and FM radio tend to work in the basement, but why Wi-Fi signals have trouble with walls. According to the New America Foundation, the 1% of frequencies below 3GHz are worth more than the other 99% of spectrum between 3GHz and 300GHz.

Even a sliver of new unlicensed spectrum in the very low frequencies could therefore make an enormous difference. It could, for example, make possible a cheap alternative to cable and digital-subscriber line modems (for which roads have to be dug up and trees uprooted) in delivering high-speed internet access across “the last mile” to the consumer.

“Amazing things have been done with Wi-Fi in garbage spectrum,” says Tren Griffin, who is in charge of spectrum matters at Microsoft. “The pregnant question is: what if we took a tiny amount of good spectrum and repurposed it?” It might at last become feasible and economic to begin bridging the world's digital divide. If low-frequency spectrum became free for innovators, then business plans to bring connectivity to villages in India and China, as well as rural Montana, would soon follow. Lives in many places could one day be richer thanks to vibrations in the air.

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Twin research

Two of a kind

Aug 12th 2004 | TWINSBURG, OHIO
From The Economist print edition

Researchers have descended on a small town in Ohio for two frenzied days of work. Twin research has never been so popular

IN THE first weekend of every August, the town of Twinsburg, Ohio, holds a parade. Decorated floats, cars and lorries roll slowly past neat, white houses and clipped lawns, while thousands of onlookers clap and wave flags in the sunshine. The scene is a perfect little slice of America. There is, though, something rather strange about the participants: they all seem to come in pairs. Identical twins of all colours, shapes, ages and sizes are assembling for the world's largest annual gathering of their kind.

The Twinsburg meeting is of interest to more people than just the twins themselves. Every year, the festival attracts dozens of scientists who come to prod, swab, sample and question the participants. For identical twins are natural clones: the odd mutation aside, they share 100% of their genes. That means studying them can cast light on the relative importance of genetics and environment in shaping particular human characteristics.

In the past, such research has been controversial. Josef Mengele, a Nazi doctor working at the Auschwitz extermination camp during the second world war, was fascinated by twins. He sought them out among arrivals at the camp and preserved them from the gas-chambers for a series of brutal experiments. After the war, Cyril Burt, a British psychologist who worked on the heredity of intelligence, tainted twin research with results that appear, in retrospect, to have been rather too good. Some of his data on identical twins who had been reared apart were probably faked. In any case, the prevailing ideology in the social sciences after the war was Marxist, and disliked suggestions that differences in human potential might have underlying genetic causes. Twin studies were thus viewed with suspicion.

Womb mates

The ideological pendulum has swung back, however, as the human genome project and its aftermath have turned genes from abstract concepts to real pieces of DNA. The role of genes in sensitive areas such as intelligence is acknowledged by all but a few die-hards. The interesting questions now concern how nature and nurture interact to produce particular bits of biology, rather than which of the two is more important (see article). Twin studies, which are a good way to ask these questions, are back in fashion, and many twins are enthusiastic participants in this research. Laura and Linda Seber, for example, are identical twins from Sheffield Village, Ohio. They have been coming to Twinsburg for decades. Over the years, they have taken part in around 50 experiments. They have had their reactions measured, been

deprived of sleep for a night and had electrodes attached to their brains. Like many other twins, they do it because they find the tests interesting and want to help science.

Research at the Twinsburg festival began in a small way, with a single stand in 1979. Gradually, news spread, and more scientists began turning up. This year, half a dozen groups of researchers were lodged in a specially pitched research tent.

In one corner of this tent, Paul Breslin, who works at the Monell Institute in Philadelphia, watched over several tables where twins sat sipping clear liquids from cups and making notes. It was the team's third year at Twinsburg. Dr Breslin and his colleagues want to find out how genes influence human perception, particularly the senses of smell and taste and those (warmth, cold, pain, tingle, itch and so on) that result from stimulation of the skin. Perception is an example of something that is probably influenced by both genes and experience. Even before birth, people are exposed to flavours such as chocolate, garlic, mint and vanilla that pass intact into the bloodstream, and thus to the fetus. Though it is not yet clear whether such pre-natal exposure shapes taste-perception, there is evidence that it shapes preferences for foods encountered later in life.

However, there are clearly genetic influences at work, as well—for example in the ability to taste quinine. Some people experience this as intensely bitter, even when it is present at very low levels. Others, whose genetic endowment is different, are less bothered by it. Twin studies make this extremely clear. Within a pair of identical twins, either both, or neither, will find quinine hard to swallow. Non-identical twins will agree less frequently.

On the other side of the tent Dennis Drayna, from the National Institute on Deafness and Other Communication Disorders, in Maryland, was studying hearing. He wants to know what happens to sounds after they reach the ear. It is not clear, he says, whether sound is processed into sensation mostly in the ear or in the brain. Dr Drayna has already been involved in a twin study which revealed that the perception of musical pitch is highly heritable. At Twinsburg, he is playing different words, or parts of words, into the left and right ears of his twinned volunteers. The composite of the two sounds that an individual reports hearing depends on how he processes this diverse information and that, Dr Drayna believes, may well be influenced by genetics.

Elsewhere in the marquee, Peter Miraldi, of Kent State University in Ohio, was trying to find out whether genes affect an individual's motivation to communicate with others. A number of twin studies have shown that personality and sociability are heritable, so he thinks this is fertile ground. And next to Mr Miraldi was a team of dermatologists from Case Western Reserve University in Cleveland. They are looking at the development of skin diseases and male-pattern baldness. The goal of the latter piece of research is to find the genes responsible for making men's hair fall out.

The busiest part of the tent, however, was the queue for forensic-science research into fingerprints. The origins of this study are shrouded in mystery. For many months, the festival's organisers have been convinced that the Secret Service—the American government agency responsible for, among other things, the safety of the president—is behind it. When *The Economist* contacted the Secret Service for more information, we were referred to Steve Nash, who is chairman of the International Association for Identification (IAI), and is also a detective in the scientific investigations section of the Marin County Sheriff's Office in California. The IAI, based in Minnesota, is an organisation of forensic scientists from around the world. Among other things, it publishes the *Journal of Forensic Identification*.

Mr Nash insists that the work on twins is being sponsored by the IAI, and has nothing to do with the Secret Service. He says the organisation collects sets of similar finger and palm prints so that improvements can be made in the ability to distinguish ordinary sets of prints. Although identical twins tend to share whorls, loops and arches in their fingerprints because of their common heredity, the precise patterns of their prints are not the same.

Just who will benefit from this research is unclear. Although the IAI is an international organisation, not everyone in it will have access to the twin data. Deciding who does will have “a lot of parameters”, according to Mr Nash. He says that the work is being assisted by the American government at the county, state and federal level, and that government agencies will have access to the data for their research. He takes pains to stress that this will be for research purposes, and says none of the data will be included in any criminal databases. But this cloak-and-dagger approach suggests that, while twin studies have come a long way, they have not shaken off their controversial past quite yet. If they are truly to do so, a little more openness from the Feds would be nice.

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Twin studies, genetics and the environment

Claiming one's inheritance

Aug 12th 2004 | TWINSBURG, OHIO
From The Economist print edition

The relationship between genes and experience is becoming better understood

THE scientific study of twins goes back to the late 19th century, when Francis Galton, an early geneticist, realised that they came in two varieties: identical twins born from one egg and non-identical twins that had come from two. That insight turned out to be key, although it was not until 1924 that it was used to formulate what is known as the twin rule of pathology, and twin studies really got going.

The twin rule of pathology states that any heritable disease will be more concordant (that is, more likely to be jointly present or absent) in identical twins than in non-identical twins—and, in turn, will be more concordant in non-identical twins than in non-siblings. Early work, for example, showed that the statistical correlation of skin-mole counts between identical twins was 0.4, while non-identical twins had a correlation of only 0.2. (A score of 1.0 implies perfect correlation, while a score of zero implies no correlation.) This result suggests that moles are heritable, but it also implies that there is an environmental component to the development of moles, otherwise the correlation in identical twins would be close to 1.0.

Twin research has shown that whether or not someone takes up smoking is determined mainly by environmental factors, but once he does so, how much he smokes is largely down to his genes. And while a person's religion is clearly a cultural attribute, there is a strong genetic component to religious fundamentalism. Twin studies are also unravelling the heritability of various aspects of human personality. Traits from neuroticism and anxiety to thrill- and novelty-seeking all have large genetic components. Parenting matters, but it does not determine personality in the way that some had thought.

More importantly, perhaps, twin studies are helping the understanding of diseases such as cancer, asthma, osteoporosis, arthritis and immune disorders. And twins can be used, within ethical limits, for medical experiments. A study that administered vitamin C to one twin and a placebo to the other found that it had no effect on the common cold.

The lesson from all today's twin studies is that most human traits are at least partially influenced by genes. However, for the most part, the age-old dichotomy between nature and nurture is not very useful. Many genetic programs are open to input from the environment, and genes are frequently switched on or off by environmental signals. It is also possible that genes themselves influence their environment. Some humans have an innate preference for participation in sports. Others are drawn to novelty. Might people also be drawn to certain kinds of friends and types of experience? In this way, a person's genes might shape the environment they act in as much as the environment shapes the actions of the genes.

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About sponsorship

Forgery

Pressure to identify

Aug 12th 2004
From The Economist print edition

Holographic analysis of handwriting

LONG before internet hackers started stealing people's identities using on-line information trails, low-tech identity theft took the form of forging cheques and other documents. Faking a signature may not be as fashionable (or as easy) as sending a victim's credit-card bill soaring past its limit by pinching the relevant electronic identification details, but old-fashioned forgery still contributes to the theft of significant amounts of money.

Successful forgery, however, is about to become a bit harder. At the moment, handwriting experts work in two dimensions—comparing signatures by eye, or by using computer programs. However, Giuseppe Schirripa Spagnolo and his colleagues at the Third University of Rome have added another dimension by employing a technique they call 3D Micro-Profilometry. They have outlined their method in a paper published in the *Journal of Optics*.

Handwriting analysis has a slightly shaky reputation due to its relationship to graphology—the unproven claim that a person's character can be read in a scientific manner from an autograph sample. However, straightforward comparisons of samples that may or may not have been written by the same person are now acceptable in courts, at least in America.

There, in 1999, a legal decision in *United States v Paul* determined that handwriting analysis qualifies as a form of expert testimony, and is therefore admissible under guidelines established by America's Supreme Court in an earlier case. These guidelines allow scientific techniques to be used in evidence, as long as the techniques have survived the scrutiny of peer review, use established error rates, and have general acceptance in the scientific community. Handwriting analysis is deemed to qualify on all counts.

Human-style handwriting analysis examines features such as letter shape, the slant of words, and stroke style. Computer analysis is less subjective, and measures the characteristics of individual pixels (the dots from which images are built up) taken from scanned samples of writing. This technique is fairly effective. It can, for instance, pick up differences in the shading of pixels from different samples. Lighter-coloured pixels denote less pen pressure on the paper, so differences between samples indicate different patterns of pen pressure—and thus the likelihood that different authors were involved.

But pixelation has its limits. With more precise techniques, the actual sequence of written strokes could be determined, leading to even more reliable identifications of forgeries. And that is what Dr Schirripa Spagnolo and his colleagues are aiming to achieve.

Their method employs holography. This technique makes three-dimensional images from the interference patterns of two laser beams used to scan an object—in this case a sample of handwriting. When the holographic information in an image is transferred to a computer, that image can be interpreted as a series of troughs of varying depths, denoting the pressure of the pen strokes used to make them.

3D Micro-Profilometry can be used to determine characteristic pressures at cross-over points such as the mid-point of a figure eight. It can also detect the starting and ending points of strokes that may go unobserved by conventional 2D analysis.

Dr Schirripa Spagnolo has used his technique to analyse hundreds of samples created with a variety of paper and pens. The only trouble he has had has been with samples written with fountain pens. Although the technique has not yet been used in court, the team believes that 3D Micro-Profilometry will be a powerful tool for forensic-science experts in the future—unless the defendant was so old-fashioned as to use a fountain pen.

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Powering spaceprobes

The heat is on

Aug 12th 2004
From The Economist print edition

A more efficient way to make electricity in spacecraft

LARGE solar panels are often the most noticeable bits of a spacecraft, just as the many sails of a 19th-century tea clipper lent that craft its distinctive character. But once merchant ships could drop their sails in favour of steam engines, they did so. The wind, after all, is not that good an energy source. Nor is the sun. Though it shines constantly, it dims as the square of your distance from it, so deep-space probes need a different source of power.

At the moment, this is provided by a process called thermoelectric coupling. But Scott Backhaus, of the Los Alamos National Laboratory, in New Mexico, and his colleagues, propose to change that by reviving an orphan invention from the age of sail—the Stirling engine.

In 1816, a British clergyman called Robert Stirling proposed a competitor to the then-ubiquitous steam engine. It used heated air instead of steam as the “working fluid” that drives the piston and—crucially for Dr Backhaus's needs—it was a sealed system, in which the air was endlessly recycled.

Thermoelectric coupling uses heat from the decay of a radioactive fuel (as opposed to the full-scale nuclear fission which powers a reactor on Earth) as its energy source. It converts this directly into electricity. But the process is only 7% efficient. The Stirling-based “thermoacoustic” system which Dr Backhaus is developing, and which is described in the latest edition of *Applied Physics Letters*, has the same heat source, but converts 18% of it into electricity.

The main difference between the thermoacoustic system and Stirling's original idea is that, instead of using thermal expansion of the working fluid to push the piston, it uses powerful pulses of sound. A minor difference is that the working fluid is helium, rather than air. The helium is heated by sending it through a carefully designed “regenerator”—a stack of 322 discs of stainless-steel wire-mesh connected to the heat source. The design of the regenerator causes the helium to expand and contract in a way that produces a powerful sound wave. This drives the piston back and forth so that it acts as an alternator, generating electricity.

Like fuel cells, another 19th-century invention that promised more than it delivered, the Stirling engine has been a device in search of an application. And, also like fuel cells, that initial application may now be found in the specialised needs of space travel. Fuel cells have gone on to great things. Perhaps Robert Stirling's time has come at last.

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About sponsorship

Israel and Palestine

Blaming Arafat

Aug 12th 2004
From The Economist print edition

Reuters

The Palestinian leader is the chief villain in two accounts of failed peacemaking in the Middle East

IT IS one of the saddest stories ever told. Soon after the Gulf war of 1991, the first President Bush convened a summit of Arabs and Israelis in Madrid, thereby initiating a decade of peacemaking. During it, Israel and Syria came within fingertip-touch of a peace deal, as did Israel and the Palestinians. It all culminated in another summit at Camp David in July 2000. But if Madrid opened a door, Camp David seemed to slam one shut. The conference failed, and within weeks Israel and the occupied territories were consumed by the worst outbreak of intercommunal fighting since the founding of Israel in 1948.

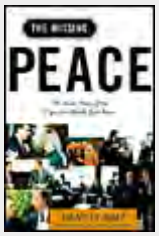
Few people are better qualified to explain how it all went so wrong than Dennis Ross (above left) and Yossi Beilin, whose accounts have both just been published. From Madrid to Camp David, Mr Ross was the pilot, navigator and engineer of America's policy in the region. Mr Beilin is an Israeli dove who served under Yitzhak Rabin, Shimon Peres and Ehud Barak. With Rabin's blessing, he was one of the initiators of the secret talks that led to the 1993 Oslo accords, under which Israel let Yasser Arafat set up a Palestinian administration in the West Bank and Gaza.

Mr Beilin remains a dove, who nowadays champions a freelance peace plan known as the Geneva accord: one aim of his book is to argue that for all Mr Arafat's failings Israelis have more to gain from continuing to negotiate than by acting unilaterally. Mr Ross has an agenda too, part of which naturally is to explain the failure of his own diplomacy. He spreads blame in many directions, but saves most for Mr Arafat. Had Mr Arafat chosen to be “a leader and not just a symbol”, Oslo and Camp David might have succeeded.

After Camp David, Mr Barak, Israel's prime minister of the time, claimed that by making a generous offer to Mr Arafat, which Mr Arafat refused, Israel had at least revealed the Palestinian leader in his true colours. But how generous was Israel's offer? And did Mr Arafat really say no?

The answers are not simple, because Israel's offer and the Palestinian reaction

The Missing Peace: The Inside Story of the Fight for Middle East Peace
By Dennis Ross



Farrar, Straus and Giroux; 840 pages; $35

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The Path to Geneva: The Quest for a Permanent Agreement, 1996-2004
By Yossi Beilin

chopped and changed, both during the course of Camp David and the following January, when in the dying days of his premiership Mr Barak sent a team to continue talks with the Palestinians at Taba, in Egypt. Just before Taba, Bill Clinton, also in the final days of office, offered a bridging plan of his own. Mr Barak accepted it, with reservations. Mr Arafat—in Mr Ross's account—"effectively" said no.

RDV Books; 377 pages; $22.95

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Under the Clinton plan, Israel would annex 4-6% of the West Bank to accommodate 80% of the Israeli settlers, with a demilitarised Palestinian state receiving a compensating 1-3% from Israel proper. Israeli forces would stay in the Jordan valley but would gradually be replaced by an international force. The aspiration of Palestinian refugees to return would be recognised in some form of words, but Israel would determine how many could return to Israel proper, and most would be expected not to. Arab parts of Jerusalem would become part of Palestine, Jewish ones part of Israel. The Palestinians would gain sovereignty over the Haram, the "Noble Sanctuary" with its two mosques, and Israel over the Western Wall.

How generous was that? More generous, at any rate, than the 9% annexation Mr Barak had ended up offering at Camp David, which was in turn more generous than the 13% he had started with. In that sense, it is hard to argue that Mr Arafat was foolish to have refused the deal available in July, since what Israel offered then turned out not to have been Mr Barak's last word. But brinkmanship is not so clever if you step beyond the brink. This is what Mr Ross accuses Mr Arafat of doing. The American diplomat interprets Mr Arafat's prevarication in a final meeting with Mr Clinton on January 2nd 2001 as a rejection: "How many times did Arafat have to tell us before we heard 'No'?" The Israeli dove differs: Mr Beilin says that Mr Clinton was willing to interpret Mr Arafat's response on January 2nd as a "Yes, but".

Whichever, January 2001 was too late for a breakthrough. By that time, Mr Barak—who had lost his Knesset majority even before going to Camp David—had been further weakened by the Palestinian *intifada* and knew he was likely to lose power to Ariel Sharon. A new Bush administration was poised to take office, intent—as Mr Ross warned the Palestinians—on disengaging from the conflict so that it would not be "stiffed" by Mr Arafat as Mr Clinton was. During Mr Bush's first week, the Israelis and Palestinians had talks in Taba, "the real purpose" of which, says Mr Ross, "was not to reach agreement, but on the Israeli side to try to constrain what Sharon could do and on the Palestinian side to try to get the Bush administration to buy into the Clinton ideas." Alas, although the negotiators came close to a deal, neither aim was achieved.

These books do not dwell only on Camp David and its aftermath. What happened there cannot be separated from the diplomacy that went before—a decade of high drama, high promise, moments of great political courage and many fateful errors, by no means all of which can be laid at Mr Arafat's door. Mr Arafat comes over as an impossible ditherer, exasperating even to his comrades. But other villains include Mr Sharon—for his incendiary eve-of-*intifada* walk on the Temple Mount—and Binyamin Netanyahu, whom Mr Beilin accuses of using his premiership after Rabin's assassination deliberately to kill the process Rabin bequeathed. Mr Barak emerges as a tragic figure—bold to the point of recklessness, desperate to succeed at Camp David, but a loner who had gambled all on a final throw and seemed flabbergasted when Mr Arafat spurned what to Israel were truly historic concessions.

If Mr Beilin's is the more readable of these books, Mr Ross's is the one for the historians. In more than 800 pages, an official at the centre of American diplomacy gives a detailed meeting-by-meeting account of who said what to whom. But be warned: it is hardly light reading. And, of course, it has an unhappy ending.

The Missing Peace: The Inside Story of the Fight for Middle East Peace.
By Dennis Ross.
Farrar, Straus and Giroux; 840 pages; $35

The Path to Geneva: The Quest for a Permanent Agreement, 1996-2004.
By Yossi Beilin.
RDV Books; 377 pages; $22.95

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Luxury hotels

Ever-revolving doors

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“ALL saints can do miracles, but few of them can keep hotel,” noted Saint Francis of Assisi. “Hotel Babylon” shows that top hotels are indeed not run by saints, and that a great deal of sinning goes on in them, by guests and staff alike.

This exposé of behind-the-scenes life is co-written by Anonymous, “someone who has spent his whole career working in hotels at the heart of [London's] luxury-hotel industry”. The day-in-the-life narrative makes a neat if occasionally forced vehicle for some choice gossip. The reader learns how much a doorman makes in tips and how outrageous the requests made by celebrity guests and royalty can be.

But the bad behaviour of celebrities is well documented elsewhere; it is the conduct of some of the regular guests that provides the book's most shocking revelations. “Something strange occurs to guests as soon as they check in”, says Anonymous, “even if in real life they are perfectly well-mannered, decent people...as soon as they spin through the revolving hotel doors the normal rules of behaviour no longer seem to apply.”

Hotel Babylon
By Imogen Edwards-Jones and Anonymous

Bantam Press; 308 pages; £12.99.

Buy it at
Amazon.com
Amazon.co.uk

It seems to be much like the personality change that takes place behind the wheel of a car. Matching road rage, moreover, is a syndrome that might be called “hotel hunger”, a time when appetites go into overdrive. This book's stories of propositions, sexual exploits and personal hygiene are far more appalling than amusing.

The staff's lives, however, are fascinating. The pecking order, the rivalry and the system of kick-backs is immensely complex and subtle. The chatty descriptions of different nationalities are offset by the narrator's discovery that an Iraqi cleaner of staff toilets is in fact a qualified doctor. In the kitchens, working conditions sound not dissimilar to those described by George Orwell in “Down and Out in Paris and London” in 1933. For Orwell, “a smart hotel is a place where 100 people toil like devils in order that 200 may pay through the nose for things they do not really want.”

The book has plenty of tips for the frequent traveller (not least of them being to give plenty of tips). Particularly revealing are the insights into reservations policies: to be told on arrival that a room has been suddenly flooded, or that the previous guest has been taken ill, means that the hotel has overbooked. For those not lucky enough to stay in the world's grandest hotels, this book will be an eye-opener that may make them wonder who, in fact, are the lucky ones.

Hotel Babylon.
By Imogen Edwards-Jones and Anonymous.
To be published in America by Blue Hen Books in December
Bantam Press; 308 pages; £12.99.

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Turkish fiction

Problems of identity

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ORHAN PAMUK is the leading contemporary interpreter of Turkish society to the western world: his novels, now invariably translated into English, explore the dilemmas and divisions of a land that is both east and west, Islamist and secular, rich and poor, ancient and modern, and much more besides. Some of his earlier explorations of Turkish identity have been hard going, not eased by their translators. But his latest novel, "Kar" or "Snow", the first to be translated by Maureen Freely, an American raised in Istanbul, is one of his most accessible.

Set in the 1990s in the bleak north-eastern city of Kars, the novel is an account of the tensions between Turkey's urban secularist elite and their long-derided (and vastly underestimated) Islamic-minded opponents. It is also a tragic love story, a thriller and, more broadly, a dark journey into familiar Pamuk territory: faith, identity, betrayal and solitude.

The hero is a washed-out poet, Kerim Alakusoglu, who insists on calling himself Ka. After years as a political refugee in Frankfurt, he returns to Istanbul for his mother's funeral. Egged on by a university friend at the doggedly pro-secular *Cumhuriyet* ("Republic") newspaper he travels to Kars to write about the municipal elections there (which are sure to be won by an Islamist candidate).

The plot unfolds over three days during which Kars is cut off from the rest of the world by an unremitting snowstorm (the book might have been titled "Ka in Kar in Kars"). In that time, there is a mini coup in which hundreds of Islamists and Kurds are rounded up, brutally tortured and killed. Ka sets out to investigate a rash of suicides by female students barred from attending local schools because they refuse to remove their headscarves—an inflammatory symbol, insist the secularists, of Islamic militancy.

Snow
By Orhan Pamuk

Knopf; 448 pages; $26.
Faber and Faber; £12.99

Buy it at
Amazon.com
Amazon.co.uk

The Saint of Incipient Insanities
By Elif Shafak

Farrar, Straus and Giroux; 368 pages; $25

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But is it? One of the achievements of "Snow" is to look beyond the tired arguments about why so many Turkish women cover their heads. In the case of Kadife, a central character, it is to gain the affection of a charismatic Islamist militant leader, not out of religious conviction.

Readers looking for a less intense taste of Turkey can turn to "The Saint of Incipient Insanities", the first novel written in English by Elif Shafak, an established writer with award-winning Turkish novels under her belt, who has been attacked for reviving Ottoman words, for her fascination with religion, and now for "betraying" her motherland by writing in English. Ms Shafak has woven a tragi-comic tapestry of quirky and lovable 20-somethings struggling to find themselves in America.

Omer, an agnostic Turk; Abed, a pious Muslim Moroccan; and Piyu, a guilt-wracked Catholic Spaniard, are housemates studying for various degrees at a Boston university. Omer falls in love with Zarpandit, an American with an inexplicable urge to kill herself. Through their conversations over dinner and their encounters in their one hard-pressed bathroom, the characters challenge each other's views on religion, politics, nationality and gender. Zarpandit, the American, feels the most alienated of all.

Mr Pamuk was educated in English at an elite Istanbul private school; Ms Shafak was born in France and raised in Spain. Their books are as much a voyage of discovery for themselves as they are insiders' insights of Turkey. Both seek to shatter stereotypes. Unlike Mr Pamuk, though, Ms Shafak does it with ironic humour and warmth. In one of the funniest scenes in her latest book, Abed's newly arrived (and devoutly Muslim) mother offers "round platters of sugar skulls" and "trays of werewolf claws" to

inebriated guests at a Halloween party. Ms Shafak is well set to challenge Mr Pamuk as Turkey's foremost contemporary novelist.

Snow.
By Orhan Pamuk.
Knopf; 448 pages; $26.
Faber and Faber; £12.99

The Saint of Incipient Insanities.
By Elif Shafak.
Farrar, Straus and Giroux; 368 pages; $25

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About sponsorship

French cuisine

Pomp frite

Aug 12th 2004
From The Economist print edition

WHAT reader could resist so delicious a topic: a book that sets out to explain how cuisine came to be so deeply ingrained in France's cultural and intellectual make-up? Unfortunately, little of this hard-to-digest work concerns the actual history of French cuisine and how it came to "triumph". Much of it seems aimed at embedding the subject in a sociological framework to prove that food is worthy of academic study. Accordingly, it piles on the jargon, including sentences such as: "The cluster of activities that surround cooking and eating stakes out culinarity as a privileged entry into the social order."

This is a pity, because beneath the layers of intellectual stodge, the author, a professor of sociology at Columbia University, offers some tantalising morsels. Almost in passing she mentions such iconic moments as the suicide of the 17th-century chef Vatel, when the fish arrived late for a banquet he was preparing for Louis XIV. She also cites the banquets of the Sun King at Versailles as a defining moment in French cuisine, but sadly does not describe them. Nor does she consider the influence of his minister, Cardinal Richelieu. Yet it was in this nation-building era of the Sun King that the first specifically French cookbooks were written.

Accounting for Taste: The Triumph of French Cuisine
By Priscilla Parkhurst Ferguson

University of Chicago Press; 258 pages; $25

Buy it at
Amazon.com
Amazon.co.uk

Priscilla Ferguson glides over the 18th century, mentioning the revolution as another key moment—when the unemployed chefs of the aristocracy founded the first restaurants in Paris—but oddly not mentioning the bread riots that began it all. Ms Ferguson seems most at home in the 19th century, and her account of the legendary chef Antonin Carême as the founder of modern French cuisine (and the world's first celebrity chef) is compelling, even if the reader is left yearning to know the menus of his famous banquets.

Carême, a beggar boy, worked his way up in post-revolutionary Parisian restaurants. After the fall of Napoleon, he went to England, where he worked for the Prince Regent before becoming the highest-paid chef in history. Then he astonished everyone by quitting to publish his own cookbooks, thereby attaining a measure of immortality for his transitory art. Most of what is now known as haute cuisine stems from his carefully codified techniques.

For Ms Ferguson, Marcel Proust best embodies the idea of French cuisine as art because he could conjure a whole world out of a cup of tea. Food for Proust possessed the transformative power of art, as suggested in his well-known description of the family cook: "Françoise went herself to the central market to get the best cuts of rump steak, beef shin, calves' feet, like Michelangelo spending eight months in the mountains of Carrara choosing the most perfect blocks of marble for his monument to Julius II."

Unfortunately, the author chooses her ingredients without flair, as if blending a series of academic papers. She enthuses about Proust and mentions Balzac, but ignores Flaubert and his famous banquet scene in "Madame Bovary". An even more egregious omission, given that this book attempts to look at how cuisine defines French culture as a whole, is visual art: there is no mention of the sumptuous culinary still-lifes by Chardin, the countless Impressionist picnics, brioches by Bonnard or mealtimes by Matisse, images that have literally transformed food into art in a specifically French way.

At the end of the book, the reader is left wondering what it is in the French soul that has for centuries made the nation both so culinarily chauvinistic and charismatic. Only the excellent appendices and bibliography offer a way to find out. The book seems written as if the author is fearful that her (American academic) peers will find the topic of cuisine frivolous unless viciously pickled in theoretical

embellishments. It goes without saying that no French intellectual worth his Camembert would be so concerned.

Accounting for Taste: The Triumph of French Cuisine.
By Priscilla Parkhurst Ferguson.
University of Chicago Press; 258 pages; $25

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About sponsorship

Plantation houses

For whom the belles toil

Aug 12th 2004 | NATCHEZ, MISSISSIPPI
From The Economist print edition

New interest in cotton-pickin' slaves

IN THE 1930s, the wealthy ladies of the Natchez Garden Club decided that the Confederate history of their small Mississippi river hamlet could make them a profit. Decked out in their hats and gloves, they saved several dozen plantations and historic homes in the area. Shrewd businesswomen, they opened the doors to tourists, usually Yankees who ventured by train through Natchez on their way south to Dixieland and New Orleans.

Soon, southern garden clubs and universities followed the Natchez preservationists' lead. Hundreds of historic homes were renovated and saved from the natural erosion of the Mississippi's banks (which nevertheless gobbled up several plantations). Dixieland, then, spelt moonlight and magnolia; ladies and gents drinking mint juleps. The idea was simple: renovate it and the tourists will flow, to relive the glory days when cotton was king.

Some houses are still being restored. Rowan Oak, the home of southern writer William Faulkner, re-opened last month in Oxford, Mississippi, after a face-lift costing more than $1m. The antebellum house still plays a central role in southern lore. Faulkner disciples from around the world travel there to pay homage. For Oxford, promoting Faulkner is an integral part of their tourist business.

But many southern towns are less fortunate. Natchez has seen a sharp decline in tourists in recent years. Even worse, many of the town's prized plantations and historic homes have been put up for sale. Once-valued assets that southern families passed from one generation to the next, these estates are now being sold like condos. The cost of maintaining them is high and tourists don't always bring in enough to keep up the renovation.

In Memphis, the Hunt-Phelan estate on the city's legendary Beale Street was recently a creaky 172-year-old mansion locked behind barbed wire. The city wanted to turn the 16-room building into a tourist attraction, but its efforts failed. Bill Day, the house's owner, was forced to sell most of its furnishings at an auction in 2000. Now he has decided to transform the house into a bed-and-breakfast place with a restaurant; it is due to open in October. He is also developing 36 luxury condos on the estate.

In Lake Village, Arkansas, a grant-aided project to renovate and study Lakeport, the last remaining cotton plantation in the state, has aroused little public interest. The project, undertaken by Arkansas State University and a handful of researchers, has yielded some interesting facts about the plantation's owners, the Johnsons. Now it will try to trace the slaves who worked the fields in order to reunite their descendants. But that won't be easy. Slave records are spotty and inaccurate, or worse, non-existent. Slaves were rarely counted in census records, and if they escaped to the north many changed their names, leaving no trail. Slave families' descendants in America have little knowledge of their ancestors. Tracing them is hard work, but Lakeport's researchers believe that this may be the only way to arouse interest in (and attract more money to) their project.

In the 20th century, the south attempted to gloss over its ugly past by highlighting palatial mansions and pretty southern belles. Southerners wanting to attract tourists today are realising that the full history of the region may be more appealing. And that will have to include the story of the captive workers who toiled in the sun for the sake of king cotton.

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About sponsorship

The night

Dark thoughts

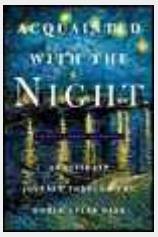
Aug 12th 2004
From The Economist print edition

AT FIRST, this intriguing book appears to be a wander through the night written by a poet and essayist. There is a chapter on sunset, and then another for each subsequent hour of darkness. In the end, though, each chapter is merely a point of departure for a much more wide-ranging journey, through subjects such as astronomy, history, palaeontology, the arts, culture and mythology.

The book is a portrait of darkness in all its forms. When the sun goes down, nocturnal creatures come out, children worry about monsters, and hormonal changes seep through our bodies. The night is the realm of ghosts, witches, dreams, bats, fireworks, prostitutes, northern lights, romance and the moon. Above all, it is the time when the imagination flows most freely and emotions seem more intense.

The author addresses all these matters in a lyrical style that he uses to great effect. Where, he asks, does the night begin? Does it wait “in dark corners until twilight and then leak out of closets and basements as the sun sets, like sequestered freedom fighters joining an army of liberation?”

Acquainted with the Night: An Intimate Journey Through the World After Dark
By Christopher Dewdney



Bloomsbury; 288 pages; $24.95 and £14.99

Buy it at
Amazon.com
Amazon.co.uk

Because the book ranges so broadly, it inevitably skims lightly over its subject matter. Remarkably, though, the writer's poetic side is no barrier to his account of the various sciences of the night. Whether he is writing about circadian rhythms or the physics of sunsets it is done with a light hand, but an illuminating one. Even those who already know of the “green flash”, a glow that occasionally appears above the place where the sun has set, will be surprised to learn of its even rarer relation, the “blue flash”.

In one place, readers are invited to consider what the first nights on Earth might have been like. For a start, they were not very long—as the planet was spinning much faster in those days. About 4 billion years ago, the night would have lasted only a few minutes while the stars would have appeared to wheel dizzily through the heavens, and the moon would have careened through the stars like a cannonball. It makes for perfect bedtime reading.

Acquainted with the Night: An Intimate Journey Through the World After Dark.
By Christopher Dewdney.
Bloomsbury; 288 pages; $24.95.
Bloomsbury; 288 pages; £14.99.

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About sponsorship

Obituary

Red Adair

Aug 12th 2004
From The Economist print edition

Paul Neal ("Red") Adair, firefighter, died on August 7th, aged 89

Manoocher Deghati-AFP-Getty

AS HE flew into Kuwait in March 1991, Red Adair could see nothing. The sky was filled with black smoke to a height of 15,000 feet, and it was impossible to tell what was north, south, east or west. The smoke came from burning oilfields, sabotaged by Saddam Hussein as his troops retreated. Each day, 5m barrels, worth $150m, were going up in flames.

From the crater that was Kuwait City's airport, Mr Adair surveyed the scene. The horizon was filled with one continuous fire. At the core of the wells the temperature was 3,000°F, or about the heat needed to melt steel. On the ground, 50 feet away, it was still close to 1,000°. The fires were often not shooting up straight from the wellhead, but spewing out in all directions. Mr Adair and his men donned their overalls, discarded their plastic hats in favour of aluminium, and set about doing their job. "Red", by the way, was then 75.

In retrospect, Mr Adair—never wanting in confidence or cockiness where fires were concerned—thought Kuwait had been easy. "We put all the fires out with water, just went from one to the next." In fact, he reversed the flow in the oil pipes, pumping the nearest sea ("the Adriatic" as he blithely supposed) into the oilfields and saturating the ground with water before capping the wells. His 76th birthday found him joyfully moving the giant valves into position with a crane. In the end, he put out in nine months a conflagration that was expected to burn uncontrollably for three to five years.

The hard part for Mr Adair was getting the equipment he wanted, and at once, out of the relevant governments. Only a personal chat with President Bush senior at the White House got him his bulldozers, piping and cement in a time he thought reasonable, cutting through the red tape. The Kuwaiti government played up over his demand for an aircraft full of whiskey ("Do they want their fires out, or not?"), and he never got the 4,000 pigs he had requested to detonate the mines which Saddam was supposed to have strewn across the oilfields.

If Kuwait was an easy sort of fire, by his standards, what was a tricky one? Perhaps the first with which he seized the world's attention, in 1962. The "Devil's Cigarette Lighter" had been burning for six months in the desert sands of Algeria, fuelled by a daily diet of 550m cubic feet of gas; the flames were seen by John Glenn from space as he orbited the Earth. Mr Adair used underground water to soak the area for miles around and then laid explosives, with which he blew out the fire. This technique, starving fires of oxygen and then instantly capping the well with mud and cement, remained his favourite.

More hazardous still were fires out on oil platforms, such as the Bravo blowout in the North Sea in 1977 and the Piper Alpha disaster, off Aberdeen, in 1988, where the capping of the well had to be done in the face of mountainous seas. For these jobs, Mr Adair used support-and-rescue ships and semi-submersible fire-boats all of his own design. At Piper Alpha, where 167 men had died, huge pieces of debris had to be moved from the wellhead by cranes tossing like flotsam amid the wind and the waves.

Mr Adair was proud of his equipment and, to prove it, made sure most of it was red. Red cranes, red overalls, red bulldozers and red boots announced to the world that his team had been called to the scene. From the first days of the founding of his firefighting company, in 1959, his men tooled round the

dry scrub of the Texas oilfields in red Lincolns, easy to spot when needed. Off the job, Mr Adair sported red long-johns and drove a red Bentley. Short and stocky he might be, but he was full to the brim with Texas swagger. He was never more thrilled than when John Wayne played him in “Hellfighters” and he, Red Adair, was called in to give the Duke technical advice.

The blacksmith's boy

He was born in Houston in 1915, one of eight children in a blacksmith's family. Appropriately enough, he was called “Red” because of his flaming hair. Exposed early on to the roar of the forge and the flying sparks from the anvil, he had no fear of fire. When others fled, he would walk straight up to the blaze. He saw fires as individual creatures; none could be treated like another. All the same, “I haven't met one yet you can't lick in around six weeks.”

Yet only chance got him into his dangerous trade. After dropping out of school, he worked on the railroad, in a drug store and as an itinerant labourer. One day in 1938 he was taking equipment to an oilfield near Alice, Texas, when a well blew. The crew fled; the firefighters, though trained in oilfield work, could not control the blaze. “Boy, do you want to work and make some money?” he was asked.

In more than 50 years of firefighting, he dealt with almost 3,000 fires. Remarkably, he was never much hurt. A crane crushed him once, and he suffered a few days of smoke-blindness. Exploding gas threw him in the air, but he seemed to bounce. In his later years he was deaf, not surprisingly, for much of his life had been spent amid the roar of flames or explosions. He perfected the art of snoozing while conflagrations raged around him.

Although he anticipated Heaven, he rather hoped for a sighting of Hell.

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Overview

Aug 12th 2004
From The Economist print edition

America's economic recovery is again suffering from sluggish jobs growth. In July, non-farm payrolls grew by a meagre 32,000, much below analysts' expectations of more than 200,000 new jobs. Payrolls growth for May and June was also revised downwards. The unemployment rate, however, fell to 5.5% in July, compared with 6.2% a year ago.

The **Federal Reserve** put up America's key interest rate by one-quarter of a percentage point to 1.50%. The rise follows the Fed's decision in June to lift rates from their historic lows of 1%. In its statement, the Fed's Open Market Committee hinted that much of the recent economic slowdown was caused by rising oil prices, and was likely therefore to be temporary.

Italy's economy grew by 1.1% in the year to the second quarter, up from 0.7% in the year to the first quarter. Industrial production in **Germany** fell sharply in June and posted year-on-year growth of only 2.2%, compared with growth of 3.5% in the year to May. Also in the year to June, industrial production grew by 2.7% in **France**, and was stagnant in **the Netherlands**.

Unemployment in **Britain** edged up to 4.8% in the three months to June, according to the ILO measure, and was unchanged in July, according to the claimant-count measure.

Oil prices continued to climb, and traded briefly above $45 a barrel in New York.

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Output, demand and jobs

Aug 12th 2004
From The Economist print edition

% change on year ago

	GDP latest	GDP qtr*	The Economist poll GDP forecasts 2004	The Economist poll GDP forecasts 2005	Industrial production latest	Retail sales (volume) latest	Unemployment % rate latest	Unemployment % rate year ago
Australia	+ 3.2 Q1	+ 0.9	+ 3.5	+ 3.3	– 1.1 Q1	+ 7.9 Q2	5.7 Jul	6.2
Austria	+ 0.5 Q1	+ 0.8	+ 1.6	+ 2.1	+ 6.6 May	+ 2.6 Apr	4.2 Jul	4.5
Belgium	+ 2.0 Q1	+ 3.0	+ 2.2	+ 2.1	+ 2.7 Jun	– 2.5 May	12.8 Jul†	13.0
Britain	+ 3.7 Q2	+ 3.8	+ 3.3	+ 2.7	+ 0.5 Jun	+ 7.2 Jun	4.8 Jun††	5.0
Canada	+ 1.6 Q1	+ 2.4	+ 2.9	+ 3.4	+ 3.6 May	+ 4.9 Mar	7.2 Jul	7.7
Denmark	+ 1.4 Q1	+ 3.8	+ 2.0	+ 2.2	+ 3.9 Jun	+ 4.3 Jun	6.4 Jun	6.3
France	+ 2.8 Q2	+ 3.2	+ 2.2	+ 2.2	+ 2.7 Jun	+ 4.1 Jun	9.9 Jun	9.8
Germany	+ 1.5 Q2	+ 1.9	+ 1.5	+ 1.7	+ 2.2 Jun	– 2.2 Jun	10.6 Jul§	10.6
Italy	+ 1.1 Q2	+ 1.0	+ 1.2	+ 1.8	– 0.1 Jun	– 5.3 May	8.5 Jan	8.9
Japan	+ 5.6 Q1	+ 6.1	+ 4.5	+ 2.3	+ 8.9 Jun	– 2.9 Jun	4.6 Jun	5.3
Netherlands	+ 1.0 Q2	– 0.8	+ 1.3	+ 1.8	nil Jun	– 1.0 May‡	6.4 Jun**	5.3
Spain	+ 2.8 Q1	+ 2.6	+ 2.8	+ 2.8	+ 5.7 Jun	+ 2.1 Jun	11.1 Jun	11.3
Sweden	+ 2.6 Q1	+ 2.6	+ 2.8	+ 2.6	+ 7.5 May	+ 5.4 May	5.8 Jun†	4.8
Switzerland	+ 1.5 Q1	+ 1.6	+ 1.9	+ 2.1	+ 4.5 Q1	+ 6.2 Jun	3.6 Jul†	3.6
United States	+ 4.8 Q2	+ 3.0	+ 4.5	+ 3.5	+ 5.6 Jun	+ 5.6 Jun	5.5 Jul	6.2
Euro area	+ 1.3 Q1	+ 2.3	+ 1.8	+ 2.0	+ 3.9 May	+ 1.2 Jun	9.0 Jun	8.9
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	+ 2.7 Q1	+ 3.0	na	na	+ 5.2 Jun	+ 5.7 Apr	8.9 Jun†	9.6
Greece	+ 3.9 Q2	– 0.6	na	na	– 1.5 Jun	+ 4.0 May	na	na
Iceland	+ 4.9 Q1	na	na	na	na	na	3.3 May†	3.6
Ireland	+ 6.1 Q1	na	na	na	– 0.2 May	+ 5.4 May	4.4 Jul	4.8
Luxembourg	+ 2.12003	na	na	na	– 1.2 Dec	+ 2.3 Mar	4.0 May	3.6
New Zealand	+ 4.4 Q1	+ 8.1	na	na	+ 5.5 Q1	+ 8.0 Q1	4.0 Q2	4.7
Norway	+ 2.9 Q1	+ 3.9	na	na	+10.4 Jun	+ 5.3 Jun	4.6 Q2	4.7
Portugal	+ 0.1 Q1	+ 2.4	na	na	– 0.2 Jun	+ 5.2 Jun	6.4 Q1†	6.4

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡New series. ††Apr-Jun; claimant count rate 2.7% in Jul. §EU harmonised rate 9.8% in Jun. **Apr-Jun.

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Prices and wages

Aug 12th 2004
From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2004	2005	latest		year ago	latest		year ago
Australia	+ 2.5	Q2	+ 2.7	+ 2.5	+ 2.5	+ 2.8	Q2	+ 0.2	+ 5.1	Q1	+ 4.4
Austria	+ 2.3	Jun	+ 1.1	+ 1.6	+ 1.5	+ 6.0	Jul	+ 1.2	+ 2.2	Jun	+ 2.1
Belgium	+ 2.4	Jul	+ 1.5	+ 1.8	+ 1.6	+ 4.2	Jun	− 0.8	+ 2.3	Apr	+ 1.7
Britain	+ 1.4	Jul*	+ 1.3	+ 1.5	+ 1.8	+ 2.5	Jul	+ 1.3	+ 4.4	Jun†	+ 3.0
Canada	+ 2.5	Jun	+ 2.6	+ 2.0	+ 2.1	+ 6.4	Jun	− 2.7	+ 2.6	May	+ 3.0
Denmark	+ 1.3	Jul	+ 1.9	+ 1.3	+ 1.9	+ 2.4	Jun	− 0.2	+ 3.3	Q1	+ 3.9
France	+ 2.4	Jun	+ 2.0	+ 2.1	+ 1.7	+ 2.2	Jun	+ 0.9	+ 2.8	Q1	+ 2.9
Germany	+ 1.8	Jul	+ 0.9	+ 1.6	+ 1.2	+ 3.9	Jul	nil	+ 1.8	May	+ 1.4
Italy	+ 2.3	Jul	+ 2.7	+ 2.3	+ 2.1	+ 3.2	Jun	+ 1.5	+ 3.3	Jun	+ 1.7
Japan	nil	Jun	− 0.4	− 0.1	+ 0.3	+ 1.6	Jul	− 0.8	+ 0.8	Jun	+ 4.0
Netherlands	+ 1.1	Jul	+ 2.1	+ 1.5	+ 1.4	+ 3.7	Jun	+ 1.2	+ 1.5	Jun	+ 2.9
Spain	+ 3.4	Jul	+ 2.8	+ 2.8	+ 2.6	+ 4.0	Jun	+ 0.9	+ 3.2	Q1	+ 4.9
Sweden	+ 0.7	Jul	+ 1.8	+ 0.8	+ 1.6	+ 1.5	Jun	− 1.6	+ 2.0	May	+ 2.6
Switzerland	+ 0.9	Jul	+ 0.2	+ 0.7	+ 1.1	+ 1.5	Jun	− 0.7	+ 1.4	2003	+ 1.8
United States	+ 3.3	Jun	+ 2.1	+ 2.6	+ 2.3	+ 4.0	Jun	+ 2.7	+ 1.9	Jul	+ 2.9
Euro area	+ 2.4	Jul	+ 1.9	+ 2.0	+ 1.7	+ 2.4	Jun	+ 1.4	+ 2.5	Q1	+ 3.0
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	− 0.1	Jun	+ 0.8	na	na	+ 1.1	Jun	− 0.3	+ 4.1	Q1	+ 4.1
Greece	+ 2.9	Jul	+ 3.6	na	na	+ 1.9	Jun	+ 3.1	na		na
Iceland	+ 3.6	Jul	+ 1.6	na	na	+ 5.0	Jun	+ 3.2	+ 5.1	Jun	+ 5.6
Ireland	+ 2.3	Jun	+ 3.5	na	na	+ 1.3	Jun	−10.6	+ 6.1	Q4	+ 6.4
Luxembourg	+ 2.6	Jun	+ 1.8	na	na	+ 7.7	May	+ 2.7	− 0.4	Dec	+ 0.7
New Zealand	+ 2.4	Q2	+ 1.5	na	na	− 0.6	Q1	− 1.3	+ 2.2	Q1	+ 2.3
Norway	+ 1.5	Jul	+ 1.5	na	na	+13.6	Jul	+ 6.3	+ 4.6	Q1	+ 5.3
Portugal	+ 2.7	Jun	+ 3.3	na	na	+ 2.4	Jun	+ 0.8	+ 1.3	May	− 1.9

*New series. RPI inflation rate 3.0% in Jul. †Apr-Jun.

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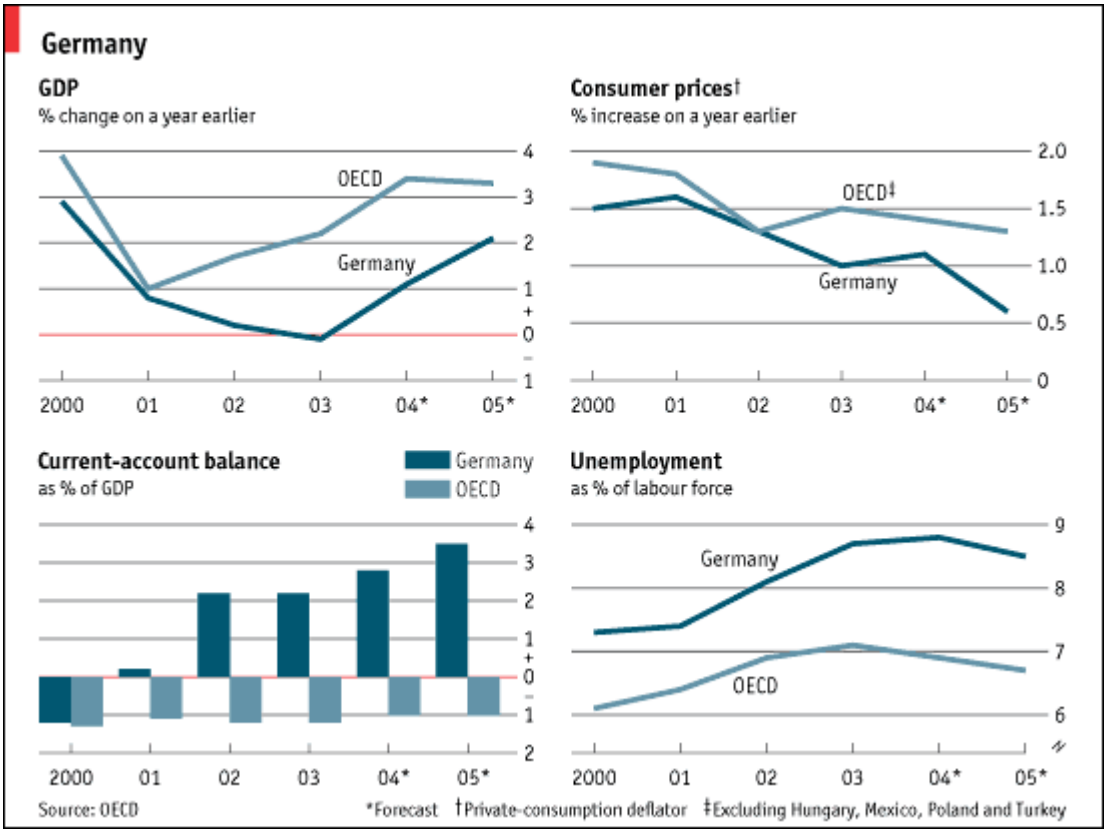
Germany

Aug 12th 2004
From The Economist print edition



Germany's economic growth has lagged far behind that of the rest of the rich world during the past few years. Although growth is expected to return this year, thanks in large part to continued strong exports, the country's politicians have their work cut out for them if they want to see yet stronger growth in future. Recent reforms, says the OECD, are encouraging. Yet labour market reforms especially need to be carried further, including reducing lavish unemployment benefits and reducing the scope for collective bargaining of wages. With a budget deficit of nearly 4% of GDP, fiscal policy needs urgent attention. Trimming high marginal tax rates could encourage greater work effort and aid in new business formation. To top off its list, the OECD recommends making the education system more efficient and allowing more skilled immigration.

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Money and interest rates

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From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Aug 11th 2004)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 4.4	+11.8	Jun	5.45	4.84	5.19	5.65	5.60	6.43
Britain	+ 6.4	+ 7.8	Jun	4.91	3.44	4.86	4.98	4.53	5.69
Canada	+15.6	+ 8.1	Jun	2.05	2.84	3.01	4.67	5.05	6.21
Denmark	+ 7.7	+ 9.1	Jun	2.25	2.30	2.43	4.19	4.32	5.31
Japan	+ 4.0	+ 1.9	Jul	0.03	0.01	0.17	1.67	0.94	1.73
Sweden	+ 2.6	+ 0.8	Jun	1.99	2.67	2.68	4.34	4.66	2.81
Switzerland	+ 6.6	+ 4.2	Jun	0.52	0.25	1.02	2.62	2.58	2.40
United States	+ 5.1	+ 5.8	Jun	1.63	1.03	2.52	4.28	4.49	5.80
Euro area†	+ 9.6	+ 5.4	Jun	2.11	2.14	2.45	4.05	4.13	3.89

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 5.05%, Japan No. 262 1.67%. Central bank rates: US fed funds 1.50%, ECB refinancing 2.00%, BOJ overnight call 0.001%, BOE repo 4.75%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Aug 12th 2004
From The Economist print edition

1995=100

	Aug 3rd	Aug 10th*	% change on one month	% change on one year
Dollar index				
All items	89.8	89.1	– 6.5	+14.2
Food	83.8	82.8	– 9.8	+ 6.8
Industrials				
All	98.0	97.7	– 2.4	+24.1
Nfa†	90.1	91.9	+ 0.2	+12.3
Metals	104.7	102.5	– 4.3	+34.9
Sterling index				
All items	77.7	76.4	– 5.6	– 0.5
Euro index				
All items	97.9	95.2	– 6.4	+ 4.8
Yen index				
All items	105.7	105.1	– 5.0	+ 6.7
Gold				
$ per oz	391.45	399.95	– 0.4	+11.3
West Texas Intermediate				
$ per barrel	44.10	44.49	+12.6	+39.5

* Provisional. † Non-food agriculturals.

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Stockmarkets

Aug 12th 2004
From The Economist print edition

Market indices

	Aug 11th	2004 high	2004 low	% change on one week	% change on record high	% change on Dec 31st 2003 in local currency	% change on Dec 31st 2003 in $ terms
Australia (All Ordinaries)	3,520.1	3,565.3	3,274.9	– 1.0	– 1.3	+ 6.5	+ 0.7
Austria (ATX)	1,990.0	2,040.1	1,568.9	– 1.9	– 2.5	+28.8	+24.6
Belgium (Bel 20)	2,461.9	2,517.3	2,244.2	– 1.0	–33.1	+ 9.7	+ 6.1
Britain (FTSE 100)	4,312.2	4,575.7	4,287.0	– 2.2	–37.8	– 3.7	– 1.6
Canada (Toronto Composite)	8,168.2	8,898.8	8,123.5	– 2.3	–28.3	– 0.6	– 3.1
Denmark (KBX)	235.8	241.3	219.0	– 0.8	–21.9	+10.4	+ 7.0
France (SBF 250)	2,397.9	2,594.4	2,394.4	– 2.7	–45.4	– 0.6	– 3.8
(CAC 40)	3,503.0	3,811.4	3,465.3	– 2.9	–49.4	– 1.5	– 4.7
Germany (DAX)	3,678.9	4,151.8	3,678.9	– 3.8	–54.4	– 7.2	–10.2
Italy (BCI)	1,247.5	1,340.3	1,239.5	– 3.2	–42.8	– 0.7	– 3.9
Japan (Nikkei 225)	11,049.5	12,163.9	10,365.4	+ 0.4	–71.6	+ 3.5	– 0.2
(Topix)	1,121.1	1,217.9	1,022.6	+ 0.6	–61.1	+ 7.4	+ 3.6
Netherlands (AEX)	312.9	364.8	312.9	– 3.3	–55.4	– 7.3	–10.3
Spain (Madrid SE)	807.2	881.7	807.2	– 2.4	–29.6	– 0.1	– 3.3
Sweden (Affarsvarlden Gen)	193.5	218.1	188.5	– 3.0	–51.7	+ 2.7	– 2.0
Switzerland (Swiss Market)	5,369.3	5,934.4	5,358.6	– 2.7	–36.2	– 2.2	– 4.3
United States (DJIA)	9,938.3	10,737.7	9,814.7	– 1.9	–15.2	– 4.9	– 4.9
(S&P 500)	1,075.8	1,157.8	1,064.0	– 2.1	–29.6	– 3.2	– 3.2
(NASDAQ Comp)	1,782.4	2,153.8	1,774.6	– 3.9	–64.7	–11.0	–11.0
Europe (FTSE Eurotop 300)*	946.2	1,026.2	946.2	– 3.1	–44.5	– 1.2	– 4.4
Euro area (FTSE Ebloc 100)*	791.6	888.3	791.6	– 3.1	–48.9	– 4.8	– 7.9
World (MSCI)†	1,005.1	1,085.8	997.0	– 1.7	–30.6	– 3.0	– 3.0
World bond market (Citigroup)‡	600.5	619.5	575.1	+ 1.1	– 3.1	– 0.5	– 0.5

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in $ terms.
‡Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Aug 12th 2004
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current account $bn latest 12 mths		The Economist poll % of GDP, forecast 2004	2005	Exchange rate trade-weighted† 1990=100 Aug 11th	year ago	Currency units per $ Aug 11th	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2004‡
Australia	− 16.9	Jun	− 33.0	Q1	− 5.4	− 3.9	84.6	83.0	1.40	1.52	2.57	1.71	1.26	0.5
Austria	− 0.5	Apr	− 2.0	May	− 0.4	− 0.2	102.8§	103.1	0.82	0.89	1.50	–	0.74	-1.3
Belgium	+ 21.9	May	+ 12.2	Mar	+ 3.5	+ 3.4	102.9§	103.3	0.82	0.89	1.50	–	0.74	-0.2
Britain	− 93.6	Jun	− 39.2	Q1	− 2.4	− 2.0	105.6	99.0	0.55	0.62	–	0.67	0.49	-2.9
Canada	+ 46.7	May	+ 20.9	Q1	+ 2.2	+ 1.6	87.1	84.6	1.33	1.38	2.42	1.62	1.19	1.2
Denmark	+ 10.3	May	+ 6.8	May	+ 2.7	+ 2.6	106.5	106.5	6.09	6.58	11.1	7.44	5.48	0.9
France	+ 4.4	May	+ 2.5	May	+ 0.7	+ 0.8	106.3§	106.8	0.82	0.89	1.50	–	0.74	-3.8
Germany	+186.4	Jun	+ 93.7	Jun	+ 2.8	+ 2.6	104.0§	104.5	0.82	0.89	1.50	–	0.74	-3.7
Italy	+ 3.4	May	− 15.2	May	− 1.0	− 0.8	75.9§	76.1	0.82	0.89	1.50	–	0.74	-3.1
Japan	+128.9	Jun	+163.6	Jun	+ 3.5	+ 3.6	132.4	128.2	111	119	203	136	–	-7.1
Netherlands	+ 33.0	May	+ 18.7	Q1	+ 2.8	+ 2.8	102.4§	102.8	0.82	0.89	1.50	–	0.74	-3.1
Spain	− 60.1	May	− 28.3	Apr	− 2.9	− 2.6	77.0§	77.3	0.82	0.89	1.50	–	0.74	0.3
Sweden	+ 22.6	Jun	+ 21.2	Q1	+ 6.4	+ 5.8	80.6	80.1	7.54	8.17	13.8	9.20	6.79	0.2
Switzerland	+ 7.8	Jun	+ 37.5	Q4	+10.5	+10.2	112.5	111.8	1.26	1.37	2.31	1.54	1.14	-1.6
United States	−572.9	May	−537.3	Q1	− 5.2	− 4.4	97.2	104.4	–	–	1.83	1.22	0.90	-4.7
Euro area	+107.6	May	+ 58.4	May	+ 0.5	+ 0.6	90.5	90.0	0.82	0.89	1.50	–	0.74	-2.8
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 14.0	May	+ 10.2	May	na	na	81.9§	82.2	0.83	0.89	1.52	–	0.75	1.6
Greece	− 27.5	May	− 10.4	May	na	na	59.5§	59.7	0.83	0.89	1.52	–	0.75	-3.2
Iceland	− 0.4	Jun	− 0.7	Q1	na	na	95.2**	98.2	71.7	79.9	131	87.5	64.5	0.2
Ireland	+ 41.8	May	− 2.1	Q1	na	na	93.9§	95.2	0.83	0.89	1.52	–	0.75	-0.5
Luxembourg	− 3.9	May	+ 3.2	Q1	na	na	102.9§	103.3	0.83	0.89	1.52	–	0.75	-1.8
New Zealand	− 2.2	Jun	− 3.4	Q1	na	na	104.6	100.2	1.59	1.70	2.91	1.94	1.43	2.9
Norway	+ 29.0	Jun	+ 29.4	May	na	na	96.6	96.9	7.01	7.34	12.8	8.56	6.31	10.4
Portugal	− 14.9	Apr	− 8.8	May	na	na	93.3**	92.9	0.83	0.89	1.52	–	0.75	-3.8

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, June average. ‡OECD forecast. **IMF, April average.

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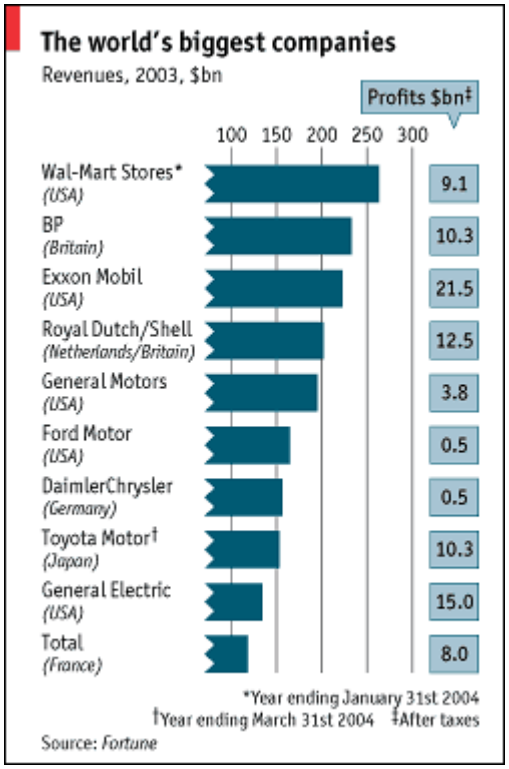
The world's biggest companies

Aug 12th 2004
From The Economist print edition



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Overview

Aug 12th 2004
From The Economist print edition

China's economy continues to cool gradually. Industrial production growth slowed to 15.5% in the year to July, compared with 16.2% in the year to June and 23.2% in the year to February.

In **Turkey**, industrial production is also moderating. It slowed to a still-impressive 15.7% in the year to June, down from 16.5% in the year to May.

Industrial production in **Brazil** rose by 13.0% in the year to June, up from 7.8% in the year to May.

Consumer prices in the year to July rose by 3.2% in the **Czech Republic** and by 3.3% in **Taiwan**.

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The Economist poll of forecasters

Aug 12th 2004
From The Economist print edition

Every three months, *The Economist* polls a group of forecasters and averages their predictions for economic growth and current-account balances in 25 emerging economies. Our seers have become more optimistic since our last poll in April. In 2005, China is still tipped to be the fastest growing emerging economy of the ones listed in our table, with expected growth of 7.9%. But Venezuela is now expected to outperform the others this year, with growth revised up to 9.5%, from 7.8% three months ago.

The Economist poll of forecasters

August

	Real GDP % change		Current account % of GDP	
	2004	2005	2004	2005
China	9.2	7.9	1.2	1.2
Hong Kong	6.6	4.7	11.2	10.3
India	7.1	6.7	0.3	0.1
Indonesia	4.6	4.4	2.3	1.6
Malaysia	6.5	5.4	10.7	8.1
Philippines	5.0	4.0	2.7	2.1
Singapore	7.5	4.7	25.0	22.4
South Korea	5.3	4.9	3.4	2.7
Taiwan	5.8	4.4	6.8	5.9
Thailand	6.5	5.6	3.4	2.2
Argentina	7.3	4.0	3.1	1.1
Brazil	3.8	3.5	1.0	0.2
Chile	4.9	4.8	1.4	0.2
Colombia	4.0	3.7	−2.1	−2.4
Mexico	3.9	3.5	−2.0	−2.3
Peru	4.8	3.8	0.4	−0.2
Venezuela	9.5	3.6	9.0	6.3
Egypt	3.2	3.7	1.8	0.7
Israel	2.7	3.4	−1.0	−1.3
South Africa	2.6	3.2	−1.9	−1.9
Turkey	6.0	4.4	−3.6	−2.9
Czech Republic	3.3	3.8	−6.2	−5.8
Hungary	3.6	3.6	−7.6	−6.7
Poland	5.7	4.9	−1.8	−2.3
Russia	7.2	5.9	6.9	4.3

Sources: ABN Amro; Deutsche Bank; Economist Intelligence Unit; Goldman Sachs; HSBC; ING Financial Markets; J.P.Morgan Chase; Merrill Lynch; Citigroup; UBS Warburg.

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Economy

Aug 12th 2004
From The Economist print edition

	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 9.6	Q2	+15.5	Jul	+ 5.3	Jul	+15.7	Jul	+45.9	2003	470.6	Jun
Hong Kong	+ 6.8	Q1	+ 1.8	Q1	– 0.1	Jun	–13.0	Jun	+14.3	Q1	118.3	Jul
India	+ 8.2	Q1	+ 6.2	May	+ 3.0	Jun	–16.9	Jun	+ 8.7	Q1	113.0	Jul
Indonesia	+ 4.5	Q1	+24.0	May	+ 7.2	Jul	+27.9	Jun	+ 7.4	Q4	33.7	Jun
Malaysia	+ 7.6	Q1	+13.3	Jun	+ 1.3	Jun	+19.5	Jun	+13.0	Q1	53.9	Jun
Philippines	+ 6.4	Q1	– 1.6	May	+ 6.0	Jul	– 1.3	May	+ 3.9	Mar	12.8	Jul
Singapore	+12.5	Q2	+19.4	Jun	+ 2.3	Jun	+16.1	Jun	+27.6	Q1	101.6	Jun
South Korea	+ 5.3	Q1	+12.3	Jun	+ 4.4	Jul	+30.0	Jul	+24.6	Jun	167.0	Jun
Taiwan	+ 6.3	Q1	+15.7	Jun	+ 3.3	Jul	+12.7	Jul	+27.4	Q1	230.4	Jul
Thailand	+ 6.5	Q1	+ 9.4	Jun	+ 3.1	Jul	+ 1.7	Jun	+ 7.0	Jun	42.3	Jun
Argentina	+10.7	Q1	+ 9.5	Jun	+ 4.9	Jul	+13.4	Jun	+ 6.1	Q1	18.1	Jul
Brazil	+ 2.7	Q1	+13.0	Jun	+ 6.8	Jul	+30.9	Jul	+ 7.9	Jun	49.8	Jun
Chile	+ 4.8	Q1	+ 5.1	Jun	+ 1.4	Jul	+ 6.7	Jul	– 0.1	Q1	15.9	Jun
Colombia	+ 4.1	Q1	+ 3.5	May	+ 6.2	Jul	+ 0.2	Apr	– 1.6	Q1	11.6	Jun
Mexico	+ 3.7	Q1	+ 5.2	Jun	+ 4.5	Jul	– 5.5	Jun	– 9.1	Q1	60.4	Jun
Peru	+ 4.2	May	+ 7.5	Jun	+ 4.6	Jul	+ 1.5	Jun	– 0.6	Q1	10.3	Jul
Venezuela	+29.8	Q1	+24.8	May	+21.8	Jul	+17.8	Q1	+12.3	Q1	18.9	May
Egypt	+ 3.1	2003†	+ 2.6	2003†	+ 5.5	Dec	– 6.7	Q1	+ 3.9	Q1	13.3	May
Israel	+ 2.6	Q1	+ 4.2	May	nil	Jun	– 5.3	Jul	+ 0.3	Q1	26.2	Jul
South Africa	+ 1.9	Q1	+ 4.9	Jun	+ 1.2	Jun	+ 0.3	Jun	– 2.0	Q1	10.3	Jul
Turkey	+10.1	Q1	+15.7	Jun	+ 9.6	Jul	–29.8	Jun	–12.1	Jun	33.9	Jun
Czech Republic	+ 3.1	Q1	+12.7	May	+ 3.2	Jul	– 2.3	Jun	– 6.0	Q1	26.3	Jul
Hungary	+ 4.2	Q1	+ 7.9	Jun	+ 7.2	Jul	– 4.2	Apr	– 7.1	Apr	12.8	Jul
Poland	+ 6.9	Q1	+15.7	Jun	+ 4.4	Jun	– 5.5	May	– 3.4	May	34.6	Jul
Russia	+ 7.4	Q1	+ 9.2	Jun	+10.4	Jul	+67.9	Jun	+38.4	Q2	84.9	Jul
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+ 6.8	Q1	+ 5.4	Jun	+ 4.1	Jul	– 2.3	May	– 1.1	Q1	1.3	Oct
Latvia	+ 8.8	Q1	+ 7.3	Jun	+ 6.7	Jul	– 2.4	May	– 1.4	May	1.5	Jun
Lithuania	+ 6.9	Q2	na		+ 1.9	Jul	– 2.9	Apr	– 1.5	Q1	3.2	Jun
Slovakia	+ 5.5	Q1	+ 4.7	Jun	+ 8.5	Jul	– 0.7	Jun	+ 0.1	Apr	11.9	Jun
Slovenia	+ 3.7	Q1	+ 9.6	Jun	+ 3.8	Jul	– 0.9	May‡	– 0.2	May	8.2	May
Pakistan	+ 5.1	2003†	+ 3.3	Mar	+ 8.5	Jun	– 3.4	Jul	+ 2.4	Q1	11.2	Jun
Saudi Arabia	+ 7.2	2003	na		+ 0.4	May	+61.2	2003	+29.7	2003	21.9	Jun

*Excluding gold, except Singapore; IMF definition. †Year ending June.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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Financial markets

Aug 12th 2004
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Aug 11th		Dec 31st 2003	
	Aug 11th	year ago	Aug 11th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	15.1	4.00	1,453.2	– 1.4	– 7.4	– 7.4
Hong Kong	7.80	7.80	14.3	0.82	12,343.1	+ 0.5	– 1.9	– 2.3
India	46.3	45.9	84.6	4.49	5,175.2	+ 0.1	– 11.4	– 12.6
Indonesia	9,273	8,545	16,952	7.48	763.9	+ 0.7	+ 10.4	+ 0.3
Malaysia	3.80	3.80	6.95	2.87	821.5	– 0.4	+ 3.5	+ 3.5
Philippines	55.7	54.8	101.7	7.00	1,592.4	+ 1.2	+ 10.4	+ 10.1
Singapore	1.71	1.75	3.13	1.03	1,896.2	– 0.4	+ 7.5	+ 6.6
South Korea	1,155	1,180	2,111	3.90	753.1	+ 3.2	– 7.1	– 4.1
Taiwan	34.0	34.3	62.1	1.10	5,367.3	+ 0.9	– 8.9	– 9.0
Thailand	41.5	41.8	75.9	1.51	595.6	– 3.8	– 22.9	– 26.4
Argentina	3.03	2.88	5.54	5.19	957.0	– 2.7	– 10.7	– 13.6
Brazil	3.04	3.03	5.55	15.82	21,569.0	– 2.7	– 3.0	– 7.9
Chile	640	705	1,171	1.80	7,949.5	+ 1.2	+ 8.4	+ 0.3
Colombia	2,609	2,873	4,769	7.87	2,840.1	– 1.6	+ 21.7	+ 29.7
Mexico	11.4	10.7	20.9	7.23	9,849.9	– 2.2	+ 12.0	+ 10.0
Peru	3.41	3.49	6.23	2.65	2,797.7	– 0.8	+ 14.9	+ 16.8
Venezuela	2,779§	1,598	5,080	13.42	27,392.0	+ 0.2	+ 23.4	+ 26.6
Egypt	6.19	6.16	11.32	11.25	16,385.8	+ 2.5	+ 40.8	+ 40.2
Israel	4.54	4.44	8.30	1.00	540.7	– 2.4	+ 1.2	– 2.0
South Africa	6.21	7.40	11.4	8.15	10,154.3	– 2.8	– 2.2	+ 5.1
Turkey	1,463,500	1,407,500	2,675,571	25.09	18,908.6	– 0.7	+ 1.5	– 2.5
Czech Republic	25.7	28.4	47.0	2.52	785.4	– 1.2	+ 19.2	+ 18.9
Hungary	202	230	370	11.13	11,509.9	– 1.2	+ 22.7	+ 25.7
Poland	3.61	3.88	6.60	6.51	23,245.0	– 2.5	+ 11.6	+ 15.7
Russia	29.3	30.4	53.5	13.00	537.1‡	– 1.8	– 5.2	– 5.3
EMF (MSCI)*	1.00	1.00	1.83	na	419.3	– 0.3	– 5.3	– 5.3
EMBI+†	1.00	1.00	1.83	na	300.0	+ 1.3	+ 1.8	+ 1.8

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms. §Floating exchange rate.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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